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Course writer: Professor James Olukosi

Landmark University, Omu- Aran

Kwara Sate

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UNIT 1 AGRICULTURAL MARKETING DEFINED

1.0 Introduction

This unit is very important because it gives the basic definition of agricultural marketing and explains what it entails. It describes the nature and the scope of agricultural marketing and the necessity for deep understanding of its subject matter. It provides the foundation and general understanding of the course as a whole. It will also help you to understand subsequent units.

2.0 Objectives

By the end of this unit you should be able to:

- define agricultural marketing
- describe the evolution of agricultural marketing
- explain the relationship between marketing and production.

3.0 Main Content

3.1 Meaning and Scope of Agricultural Marketing

Agricultural marketing can be defined from both the micro and macro view points. The micro view point is concerned with the individual participants in marketing be it the farmer or the business firm. From this perspective, agricultural marketing can be defined as the performance of all business activities which direct the forward flow of goods and services to consumers in order to accomplish the producer's objectives. Many people consider marketing as equivalent to selling or transferring the product to another person for a price. Selling is central to the micro concept of marketing but it is only a part of it. Marketing includes packaging, storage, transportation, pricing, financing, risk bearing and even product design.

The macro view point of marketing on the other hand, is a "big picture" view. It examines the total system of economic activities concerned with the flow of agricultural products from producers to final consumers; the kinds of institutions and the price making mechanisms that guide those flows; the interactions among consumers, agribusiness firms, farmers, and even governments that determine the levels of expenditures; and the sharing of those expenditures as income to market participants.

Marketing and markets are not the same thing and need to be distinguished from each other. Marketing involves all those legal, physical and economic services which are necessary to make products from the farm available to the consumers:

* in the form and amount desired by the consumers,
* at the place desired by the consumers,

* at the time desired by the consumers,
* at the price consumers and middle men are willing to pay to take possession.

Thus marketing leads to the creation of form, place, time and possession utilities. For example a tonne of wheat grain produced in Kano or Bornu State does not give a bread consumer in Lagos satisfaction until it is transported to a flour mill where it is processed into wheat flour and further transported to a bakery in Lagos where it is transformed into the final product (bread) which gives tne consumer the necessary satisfaction. A market on the other hand is generally an area or setting in which price making forces (demand and supply) operate. It may be a city, state or a place of business n a given town. Such is referred to as a market place. A market also refers to any arrangement that brings buyers and sellers together, it could be physical contact between buyers and sellers or contact by letter writing, telephone, telex or through other means of communication.

3.2 Evolution of Agricultural Marketing

Modern marketing has evolved from a series of exchange systems Initially people were concerned with production for consumption and inter-household exchange. Such pattern of production was primarily subsistence in nature providing little or no room for specialization as each household had to produce practically ail its need. The existence of marketing is a direct result of specialization of production in the economy. Initially, most farm families were self sufficient or produced purely to meet subsistence needs. They produced most of the food crops and livestock products they needed on their small land holdings. For example, they ground their own cereal grains into flour, spun their fibre locally, butchered their meat etc. but with time people discovered that their limited and specific resource endowments and talents allowed them to produce some things better than others. Increased demand for goods and services produced out of the farm made specialization necessary. As the individual farmer specialized, it gave rise to the production of marketable surpluses which could not be exchanged easily for goods and services produced out of the farm.

Trade by batter was popular in the early days but due to its obvious disadvantages such as the necessity for double coincidence of wants, lack of unit of measure, difficulty of holding large stocks of commodities in storage for future exchange etc, the use of money as a medium of exchange evolved. This marked the beginning of the development of an efficient marketing system. Thus with the development of an efficient marketing system, it becomes possible for consumers to enjoy what they cannot produce irrespective of the distance between them and the producers.

3.3 Relationship between Marketing and Production

In a simple sense marketing may be considered as activities which take place in the market. It is the collective term used to describe exchange between buyers and sellers, who attempt to maximize profit or subjective utility. It may be thought of simply as the process of making goods available for consumption. Marketing therefore covers ail business functions, including production and in its broadest sense, it covers also all production decisions. If a farmer is producing at a commercial level, he has to think first and foremost of the market outlet for the proposed enterprise. Thus decisions regarding the variety of crop to grow or the breed of animals to keep, are marketing decisions.

Some scholars narrow down the definition of marketing. For example some do not believe that functions such as storage, transportation and processing are part of marketing. Such scholars define marketing essentially as information gathering and communication while others go further by confining marketing to the exchange function only. Although these more restrictive definitions are defensible, they do not entirely escape the production-marketing paradox

because communication and negotiation of exchange require productive-resources, at least that of human labour.

Resources are combined in various forms in the production process to generate the output, thus production creates utilities. Marketing on the other hand creates utilities of form, place, time and possession with the goods and services produced. Marketing is therefore part and parcel of the production process. It supplements production in that it makes what is produced available to consumers and users at the time, place and form required. Marketing thus constitutes a bridge between production and consumption.

PRODUCTION <======> MARKETING<======>CONSUMPTION

4.0 Self Assessment Exercise

1. Discuss the scope of agricultural marketing.

2. Explain the relationship that exists between marketing and production.

5.0 Conclusion

In this unit you have learnt about the meaning and scope of Agricultural Marketing. You have learnt about the evolution of agricultural marketing and the relationship between marketing and production.

6.0 Summary

In this unit you have learnt that Agricultural Marketing is:

- defined from both the micro and macro view points.
- from the micro view point, concerned with the individual participants in marketing be it the farmer or the business firm.
- from the macro perspective, is a "big picture" view that examines the total system of economic activities concerned with the flow of agricultural products from producers to final consumers; the kinds of institutions and the price making mechanisms that guide those flows; the interactions among consumers, agribusiness firms, farmers, and even governments.
- a generator of form, place, time and possession utilities.

You have also learnt that:

- it evolved from trading by batter to point of using money as medium of exchange.
- Agricultural marketing is part and parcel of production.

7.0 Tutor marked Assignment (TMA)

1. Explain both the micro and macro aspects of agricultural marketing.
2. How did agricultural marketing evolve?
3. Explain the four utilities created by marketing.

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UNIT 2 THE ROLE OF AGRICULTURAL MARKETING

1.0 Introduction

You have learnt in the previous unit that agricultural marketing is the link between the production and the consumption of agricultural products. This unit is therefore aimed at making you understand the role of marketing in more detail and the challenges.

2.0 Objectives

By the end of this unit you should be able to explain:

- the strategic position of the consumer
- the pivotal role of the farmer
- the economic importance of agricultural marketing
- the possibilities of expanding agricultural products
- the challenges facing agricultural marketing

3.0 Main Body

3.1 The Place of the Consumer in Marketing

In a market economy, much emphasis is placed on the consumer. This philosophy of marketing is known as the "marketing concept". His consumption and satisfaction is said to be the ultimate goal of the system. If many consumers decide that they do not like to shop or Supermarket A or to eat in Restaurant B, those institutions will wither away. If sufficient numbers of consumers decide

that they prefer beef to chicken for most of their meals, then cattle producers will prosper for a time while poultry farms will not. No agricultural product or agribusiness has a guaranteed lease of life. Each must continue to earn its position in the market place depending on the tastes and preferences of the consumers.

In view of the strategic position of consumers in marketing, millions of naira are spent annually on advertisement and sales promotion to influence the consumers' demand. These merchandising activities are aimed at persuading consumers to attribute certain desirable characteristics to one brand of product in relation to a competing brand, even though the products are identical from an objective point of view. This fact, of course, is one of the reasons firms, including farmers strive to have control over the marketing system.

Most consumers are found to be passive in their consumption. In case of industrial products some firms are highly successful in influencing consumers' demands for their specific products for example in the soft drink industry. Whereas, for agricultural products because of the homogenous nature of the products the influence of sellers on consumers' choice is insignificant. In these cases a successful marketing programmer must be consumer oriented in the sense that it must be concerned with achieving consumer satisfaction. Part of that satisfaction will be supplied through effective packaging, advertising and merchandising.

3.2 The Role of the Farmer in Agricultural Marketing

The farmer plays a very pivotal role in agricultural production and marketing as he is always the first point of contact.

i. The farmers' activities are usually focused on meeting the immediate needs of the family members while the excess output are usually put into the market as part of the overall economic development and agricultural transformation strategies of the nation.

ii. The farmer remains pivotal in agricultural transformation and poverty reduction in the nation as he contributes and influences agricultural development strategies through the adoption of new technologies and ideas for enhanced agricultural production.

iii. The farmer's income from agricultural production has helped the commercialization of agriculture as this has increased trade in high value crops and value added traditional crops.

iv. The delivery of extension services, production planning, delivery of service, monitoring and evaluation are services rendered by various experts to complement and enhance agricultural transformation and these services are rendered essentially because the farmer is available to adopt them.

3.3 Economic Importance of Marketing and Markets

In a free market economy, the price system and competition provide the coordinating mechanism for determining the flow of resources into production and the flow of goods and services into use. It is within the marketing system that prices, allocation of resources, income distribution and capital formation are determined. Therefore, the structure and performance of the marketing system may have some significant effect on the total production of a given commodity, on consumer prices, on adoption of improved technology in production and marketing methods and in fact upon the growth and development of the entire economy.

The existence of markets makes possible the existence of specialized production. Since people can exchange what they can produce with what they cannot produce through the marketing process, they am encouraged to concentrate on a particular line of production where they gain more skill and efficiency. The mechanism by which people cart exchange what they can produce with what they

cannot produce is marketing system. The extent of specialization in an economy depends on exchange and the rate at which the exchange economy emerges depends upon the performance of its marketing system.

As the marketing process becomes complex, more and more steps come between the producer and consumer. Agencies or individuals appear whose only business is to facilitate the process. These agencies are the middlemen or marketing intermediaries. In the early stages of development, farmers sold directly to consumers. In the rural communities farmers still sell directly to consumers. However, such does not make for a developed marketing system as it consequently affects the productivity of the farmers. A good and efficient marketing system accelerates the pace of economic development by encouraging specialization which leads to increase in output.

Other roles of marketing in economic development include:

i. Generation of foreign exchange earnings;
ii. Sustenance of a country's economic growth through the development of an exchange economy;
iii. Provision of incentive to farmers in order to adopt new and improved technologies, which will lead to increased agricultural production;
iv. Provision of income and sources of livelihood to the marketing agencies or intermediaries
v. Encouraging specialization and expansion of output.

3.4 The Possibilities for Expansion of Agricultural Products

Expanding agricultural production in Nigeria would require overhauling some existing policies that have constrained agricultural output over the years. Similarly, those engaged in agricultural production would require other forms of encouragement. Areas that require further emphasis include:

i. The granting of price and tax incentives to producers.

ii. An increase in the number of processing and storage plants to avoid post-harvest losses.

iii. Enforcement of the land use decree which was passed and incorporated into the 1999 Constitution with the aim of making land readily available for large 'scale agricultural activities. This has the possibility of expanding agricultural production in the country.

iv. Making available the results of research from Agricultural Research

3.5 Some Special Features of Agricultural Products

There are certain inherent characteristics of farm products which make special demand on marketing systems and organizations. These are:

i. Bulkiness:

Farm products are usually bulky. Their weights and volumes are great in relation to their monetary value, especially when compared with many manufactured goods. As a result, transport and storage costs for such products tend to be high in relation to their value.

ii. Perishability:

Some crops such as rice (in the form of paddy) retain their quality for a long time but most farm products are perishable. Fruits and vegetables rapidly become over ripe and begin to decay if they are

not consumed or kept in special storage. Milk is especially perishable in hot climates and without special treatments: it may keep for only a few hours.

iii. Seasonality:

The seasonal nature of farm products imposes constraints on the marketing system. At harvest time there is a heavy demand for marketing facilities such as storage and transportation. At other times of the year, these facilities are hardly used at all. This situation is made worse by the small size of the average production unit.

Over the greater part of Africa and Asia for instance, the average size of a holding is not more than two hectares; so many farm products start their journey to the markets as the surpluses of many thousand separate farms. The output of a farmer over and above the food requirements of his family is called the marketable surplus. Generally, in developing countries, the marketable surplus is small hence there are very many small holder farmers trying to produce food and fibre for the teeming population and many middlemen are involved in the distribution system.

3.6 Problems Confronting Agricultural Marketing

Over the years, agricultural marketing has not received the type of attention accorded agricultural production. Although there have been attempts in the past for organized marketing institutions like the defunct Marketing Boards: to intervene; the farmer has continued to face problems in the marketing of his produce due to a number of factors:

i. The prevalence of poor infrastructural facilities such as poor federal roads, inadequate road network and poor telecommunication services between the rural areas where agricultural production takes place and the urban areas which serve as markets for the produce from the rural areas.

ii. There is the problem of inappropriate on-farm storage facilities thus leading to wastage of farm produce.

iii. Irrigation facilities are still very poor despite the existence of River Basin and Rural Development Authorities.

iv. The extension service delivery system is still inadequate and especially women extension personnel are very limited to handle gender issues.

v. The land tenure system in some cultural settings especially in the south tends to constrain land availability.

vi. Over the years, prices of inputs such as herbicides, fertilizers and pesticides have risen steeply and these have constrained their adoption and subsequent impact on yield and production levels

Unavailability of credit to farmers whilst the cost of borrowing is generally high for operators in the agricultural marketing chain.

There is dearth of information relating to inputs, modern technologies and market trends.

The existing policies *are* not supportive enough for agricultural marketing transformation such as the land use act, tariffs on imports of agro-inputs and machineries.

4.0 Self Assessment Exercise

1. Why is the consumer sovereign in the marketing system?
2. What are those special features of agricultural products that pose problems for marketers?

5.0 Conclusion

In this unit you have learnt about the strategic position of the consumer, the pivotal role of the farmer, the economic importance of agricultural marketing, the possibilities of expanding agricultural products and the challenges facing agricultural marketing.

6.0 Summary

In this unit you have learnt that:

- the consumer is sovereign
- the farmer remains pivotal in agricultural transformation and poverty reduction
- the existence of markets makes possible the existence of specialized production
- a good and efficient marketing system accelerates the pace of economic development by encouraging specialization which leads to increase in output, generation of foreign exchange earnings
- there are certain features of agricultural products that compound the marketing problems

7.0 Tutor-Marked Assignments

1. What are the economic importance of agricultural marketing?
2. What are the roles of the farmer in agricultural marketing?
3. What in your opinion are major problems confronting agricultural marketing?

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MODULE 2 APPROACHES TO AGRICULTURAL MARKETING

Unit 1 The Five Approaches To Agricultural Marketing

Unit 2 The Functional Approach I: Physical, Pricing and Exchange

Unit 3 The Functional Approach II: Facilitating Function

Unit 4 Ware housing and Marketing Policies

UNIT 1 THE FIVE APPROACHES TO AGRICULTURAL MARKETING ANALYSIS

1.0 Introduction

There are five major approaches to the analysis of marketing problems. This unit gives a brief description of the five approaches.

2.0 Objectives

In this unit you would learn about the

- the functional approach,
- institutional approach,
- commodity approach,
- behavioural systems approach and
- structure- conduct- performance approach.

3.0 Main Body

3.1 Functional Approach

This method classifies the activities that occur in the marketing process into functions. **A marketing function may be defined as a major specialized activity performed in accomplishing the marketing process.**

Under this functional approach, marketing functions are classified into three. These are:

a. Physical function
b. Exchange function
c. Facilitating function

3.2 Institutional Approach

This approach studies the various agencies and business structure which perform the marketing function. It tends to answer the question who does what in marketing", "Who" refers to the agency or institution while "what" refers to the function that is being performed. Marketing institutions are the wide variety of business organizations which have developed to perform certain marketing functions. The institutional approach considers the nature and character of the various middlemen and all other intermediaries in the marketing machinery. It also includes the arrangement and organization of the marketing systems. This approach emphasizes the human element of marketing.

3.3 Commodity Approach

This approach concentrates on the study of the marketing of all related products such as livestock products which include milk, meat, cheese, butter etc or crops such as cereals (rice, maize, sorghum and millet) or tubers such as yam, cassava and potato. Given this nomenclature we can talk about the food grains marketing system, or beef marketing system or cotton marketing system in Nigeria.

3.4 Behavioural Systems Approach

The marketing process is continually changing in its organization and functional combinations. A major problem faced by a market analyst is understanding and predicting change The behavioural systems approach is used to analyze the behaviour of firms as it affects their decision under different market structures. It examines the market, its operators or the organizations involved as a system of behaviour. This enables one to understand anticipated but unforeseen changes in the marketing system.

The behavioural systems approach stipulates that food marketing should be looked at as a number of behavioural systems involved in various kinds of decision making. It emphasizes the multidisciplinary approach to the study of the marketing system.

3.5 Market Structure and Performance Approach

Market structure analysis emphasis is the nature of market competition, and attempts to relate the variables of market performance to types of market structure and conduct. Market structure is a description of the number and nature of participants in a market. Market conduct deals with the behaviour of firms. Firms that *are* price-makers are expected to act differently from those in a price taker type of industry.

Market performance is a reflection of the impact of structure and conduct on product prices, costs, the volume and quality of output. If the structure of a market is that of monopoly rather than pure competition, then one could expect poor market performance.

4.0 Self Assessment Exercise

1. Discuss the five approaches to agricultural marketing analysis.

5.0 Conclusion

In this unit you have learnt about the five approaches to agricultural marketing analysis**.**

6.0 Summary

You have learnt that:

- The functional approach is classified into the Physical function, exchange function and facilitating function
- The institutional approach studies the various agencies and business structure which perform the marketing function. It considers the nature and character of the various middlemen and all other intermediaries in the marketing machinery.
- The commodity approach concentrates on the study of the marketing of all related products such as livestock products which include milk, meat, cheese, butter etc or crops such as cereals - rice, maize, sorghum and millet.
- The behavioural approach analyzes the behaviour of firms as it affects their decision under different market structures.
- The market structure approach analyses the nature of market competition, and attempts to relate the variables of market performance to types of market structure and conduct.

7.0 Tutor- Marked Assignment

1. Explain the behavioural approach and the institutional approach to studying agricultural marketing.

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UNIT 2 THE FUNCTIONAL APPROACH: PHYSICAL AND PRICING FUNCTIONS

1.0 Introduction

The agricultural marketing process can toe accomplished principally through the physical functions performed on commodities and by utilizing the facilitating activities. These involve marketing tasks that aid the marketing process in relation to the transfer of farm produce from the farm gate through the marketing institutions to the ultimate consumers or users.

2.0 Objectives

By the end of this unit, you would have learnt about aspects of:

- Physical functions of agricultural marketing and
- Pricing and exchange functions of agricultural marketing

3.0 Main Body

3.1 The Physical Functions

The physical process of moving the farm produce from the area of production must involve some form of handling of the commodity. For example, cassava tubers harvested on the farm must be handled in one form or the other to get it through other processes.

i. Assembly

Produce harvested by small-holder farmers from various locations must be brought together at convenient points in concentrated forms for ease of transport and storage. Where such farmers belong to agricultural cooperatives, the co-operative organizations maintain facilities for storage and each member subscribes for use. These storage facilities are also referred to as warehousing. Apart from the farmers and marketing channels, it is also necessary for manufacturers to place high premium on storage or warehousing facilities to guard against consequences of market disruptions. The disruptions can be engendered by many factors such as industrial action by labour or sabotage as is the case with the oil installations in the Niger Delta area.

Market participants have continued to seek more efficient financial and operational methods to manage risk in an environment of diminishing profit margin. The storage operators would certainly come in as relief to producers and marketing agents as they will hedge them from transportation and storage risks.

2.2.1.2 Transportation

This is the physical movement of the farm products from one location to another. Transportation adds to the commodity the utility of place which is the satisfaction a consumer derives as a result of having the product he wants in the place where he wants it. Place utility of a commodity is the value it acquires or the satisfaction it gives as a result of a change of location. Transportation could be by road, rail, ship or air.

The transportation system facilitates the movement of goods from the farm to the intermediate processing and distribution centers and to the final market. To be adequate as a marketing service, transportation should provide facilities for convenient and adequate handling of commodities, care of product while in transit, speed of movement especially for perishable goods and these must be achieved at a reasonable cost.

2.2.1.3 Processing

This is the conversion of a commodity from its raw state to a form more acceptable to the buyers or to the next stage in the distribution chain. It changes the form of the product to make them ready for use. The objectives of processing are quality enhancement, preservation and product differentiation. Processing adds to the product the utility of form or utility of transportation.

Most farm products do not give satisfaction in their raw form until they are transformed into more acceptable forms through processing. For example, wheat does not give satisfaction to a consumer in its raw form until it is processed into wheat flour which could be used to prepare a variety of food items such as bread or biscuits. In the same manner seed cotton does not give a consumer satisfaction until it is ginned into lint and seed and the lint used to manufacture clothes. The development of processing facilities has added variety to the diet of many families and reduced the work in the home as many households now depend on processed food, for example baked beans, tomapep, tinned tomatoes, corn flakes etc.

Processing methods are mainly traditional, intermediate methods and improved or advanced technology. Traditional methods of processing agricultural products are the simple methods that are not capital intensive such as sun drying of pepper, tomatoes, grains: grating of cassava and frying of garri. Intermediate methods include the use of improved manually operated processing equipment such as shellers, graters, simple extractors and fryers. Advanced technology involves the use of more expensive and sophisticated machines in processing. For example, the use of modern plants in processing cassava into garri or the use of sophisticated machine in transforming milk into cheese and butter, or the transformation of groundnut into vegetable oil and groundnut cakes.

iv. Packaging

Before some commodities can move very far in the market channel they must be put into convenient packages. Potatoes are frequently packed

before shipment: tomatoes and peppers are packed in crates and baskets before they are carried from the north to the southern cities of Nigeria. Onions are packaged in bags and baskets while eggs are carried in special egg crates.

The primary objective of packaging is to put the products in containers for easy handling, for effective storage and to protect them from damages while in transit. Not only is packaging convenient for producers and consumers but it also provides some means of identification for the products. It enables a product to be identified with an advertising or manufacturing firm. It also makes the product more attractive to the buyers.

Packaging makes handling easier, prevents losses due to bruising and exposure, and divides the product into convenient lots for the buyer. As consumers become more and more choosy about the appearance of food and fibre products, the impact of packaging becomes more recognized.

3.2 Pricing and Exchange Function

This function implies buying and selling which are the two sides of the same transaction. This implies an agreement on the price, a transfer of title and ownership, provision of time and place of delivery and method of payment. Between the farmer and the final consumer, a product may be bought and sold once or many times. If the transaction occurs once or a few times such a product is said to have a long marketing chain where the exchange function is not well developed, buyers and sellers higgle and haggle before agreeing on a common value for the commodity or service. In a

well developed marketing system, values of commodities are fixed as price tags. The usefulness of these price tags depends on the honesty and integrity of the seller. A detailed discussion of the role of price in marketing is presented in later units.

4.0 Self Assessment Exercise

1. Discuss the physical functions of moving the farm produce from the area of production to the point of consumption.

5.0 Conclusion

In this unit you have learnt about the physical functions and the price and exchange function**.**

6.0 Summary

You have learnt that the:

- Physical functions entail assemblying of produce from various local producing centres , transportation, processing and packaging.
- Pricing and exchange function implies buying and selling which are the two sides of the same transaction.

7.0 Tutor – Marked Assignment

1. Discuss the pricing and exchange functions.

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UNIT 3 THE FUNCTIONAL APPROACH: FACILITATING FUNCTIONS

1.0 Introduction

You have learnt in the previous unit about the physical functions which include activities that involve physical handling of the farm products. There are other types of functions which do not involve the physical handling of the products. Some of the facilitating functions which you will learn in this unit fall under this category, though some activities considered in this unit are facilitative but can equally be termed physical.

2.0 Objectives

In this unit you will learn about the facilitating functions including:

- Sorting, grading and standardization
- Risk bearing and insurance
- Financing
- Market intelligence and
- Promotion

3.0 Main Body

3.1 Sorting, grading and standardization

Sorting is also a functional marketing activity. Sorting is a physical separation of products of different qualities. Such separation, however, may or may not conform to established standards. Thus a tomato farmer may sort out small or damaged or mouldy fruits before selling them.

Grading and standardizing go further than sorting. They refer to grouping of products in accordance with predetermined standards and specifications. **Grading means the sorting of products into different lots of some hierarchical market quality, each bearing its own name and label**. Quality may be distinguished by size, shape, flavour, degree of ripeness, length of staple (in cotton) or other commercial value of a product. The purpose of grading is to help buyers select the most suitable lots of some produce for the uses they have in mind. Accurate grading permits the buyer to purchase more precisely what he wants and is willing to pay for and to this extent it increases his satisfaction and makes the marketing system more efficient.

Grading makes physical examination of the different produce unnecessary since each lot or grade has to conform to a predetermined quality standard. This is more important in the case of export crops where the buyers and sellers are separated by a long distance making physical examination of the product almost impossible.

Inspection is closely related to grading and in many cases a part of it. Inspection is the physical part of grading. It is the physical examination of the product by designated officers for the purpose of ascertaining the grade of the commodity. For example, seed cotton is graded by produce examiners from the Ministry of Agriculture in the markets before it is sold to cotton buyers.

Agricultural products as derived from the farm in their natural forms lack uniformity. However, buyers and consumers desire uniformity therefore some basis of description of products is

necessary for the purpose of standards. These standards are based upon some factors, For example, the main factors considered in determining the grade of palm oil are in the moisture content, fatty acid and the amounts of impurities contained.

Similarly for cotton they are:

i. Percentage of immature seed cotton
ii. Percentage of damaged or stained seed cotton
iii. Presence of insects and insect damages and leaves trash
iv. Presence of foreign fibres and stalks, and the
v. Presence of minerals and moisture,

Grading and standardizing yield some advantages throughout the marketing system because products can be bought and sold without previous examination. Marketing values are better appreciated as a result of grading and products of like grades can be stored in bulk. Grading and standardizing make possible the payment of premium prices for high quality products.

3.2 **Advantages of Uniform Grading of Farm Produce**

Pricing and Operational efficiency in markets can be increased through a uniform grading system due to the following:

i. As a result of uniform grading, producers strive at improving the quality of their produce and thus earn higher prices.
ii. It increases the precision of the price formation process through greater knowledge of the quality of the products.
iii. It could increase the level of competition and expand the geographical limit of the market. This is because an acceptable and meaningful system of grading reduces the need for direct physical inspection of produce by buyers.
iv. It permits a more systematic allocation of the available supplies of a commodity to different uses in the market. For example, certain types and quantities of some fruits and vegetables are more preferable for canning than others. Grading into different market classes and quality ranges therefore facilitates allocation of the produce to different uses.
v. Grading limits the time and expenses incurable on bargaining and haggling about product quality in the market.
vi. It increases the ability and potential to buy and sell on description alone rather than only after personal inspection. For example, large volumes of cocoa, cotton and grains could be sold if they were graded without the buyers having to see the product.
vii. It may reduce the amount of expensive advertisement and promotional devices that are based on unimportant or non-existent quality characteristics. In a marketing system where products are not graded, consumers or users may rely on a brand to be assured of consistent quality even though other unbranded and slightly promoted products could meet their needs.

3.3 Risk bearing and Insurance

Other facilitating functions which make possible the smooth performance of the exchange and physical functions but are not directly involved in either the exchange of title or the physical

handling of products in the marketing system are (i) risk bearing and insurance; (ii) financing; and (iii) market intelligence. These are discussed below.

Marketing entails risks because products may be destroyed by fire, flood, pests, transportation accidents or theft. At every stage in the marketing process some risk is involved. Apart from risk associated with physical damage of products, there is also risk of strike action by workers which may stop the operation of plants or may stop the shipment of finished goods to their destinations. When these occur the marketing agents incur some losses. In order to minimize these risks, some insurance policies could be taken as it is done in advanced countries where the marketing system is well developed.

In less developed countries this important function of risk bearing is not usually performed either because the insurance companies are not willing to insure against marketing risks or because the volume of their business is usually small. In Nigeria the Agricultural Insurance Scheme introduced by the Federal Government in 1987 does not cover marketing risks. It is our hope that with time this insurance programme will be expanded to cover all aspects of agricultural marketing.

3.4 Financing

This is the provision of money and credit necessary to carry product over time throughout the marketing channel. Time lag is involved in the marketing process in two ways:

There is time lag in moving the product from the producer to the final consumer. It could be a few days for perishable products and months for less perishables such as grains, cotton and paddy rice.

There is a time lag due to unfavourable market situation which may arise as a divergence between demand and supply.

As a result of these time lags, traders are forced to tie up capital for a long time. Merchants require capital to finance the holding of stocks, to pay for storage expenses, to process and distribute the products.

Financing could be in the forms of loans or advance from banks and other lending agencies or tying up the owner's capital resources. Other informal sources of market finance such as borrowing from money lenders, friends and relatives are also very important in less developed countries.

3.5 Market Intelligence

This involves collection, analyzing and dissemination of large variety of data necessary for the smooth operation of the marketing system. Efficient marketing is dependent on information. An efficient price mechanism is dependent on well-informed buyers and sellers. The performance of all the marketing functions depends, to a large extent, on good information. Information made available through market intelligence is useful in a number of ways.

a. It helps to evaluate the possible alternative marketing channels.
b. It reveals different ways of performing marketing functions
c. It helps producers to understand market potentials for new products.

3.6 Promotion

Promotion is one of the four elements of the Marketing Mix. The other marketing elements are product, place and price. It is assumed in marketing that for a product to gain acceptance, all the

four elements of product, place, price and promotion must be properly combined in order to achieve the desired marketing objectives. Promotion as an integral constituent of marketing also encompasses four elements of advertising, personal selling, publicity and sales promotion.

Sales promotion is simply a collection of marketing incentives designed and implemented in the short run for consumers and the marketing institutions with the aim of stimulating purchase.

Sales promotion is also usually referred to as "below-the-line" as this acronym simply refers to the promotional activities that are implemented directly by the firm without the usual 10-15% commission to advertising agencies. Many examples of sales promotion tools can be mentioned: prices off, patronage awards, contests, free trials, point of purchase displays and agricultural shows. All these can be employed at different times to stimulate interest and purchase of products.

3.6.1 Promo-tools for Agricultural Marketing

The use of promo-tools is generally more prevalent in the promotion of manufactured products than agricultural products. This is probably so because of the near uniformity of agricultural products. For example, it is usually difficult to differentiate between yams. Despite this difficulty in their distinction agricultural produce marketers can still make use of discounts or rebates for large purchases. The use of free samples can also be a sales promotional tool for many agricultural products such as fruits and legumes. In some cases, agricultural marketers can resort to the use of free or reduced transport rates to attract customers. By and large, the use of individual sales promotional items may not achieve much for a particular agricultural produce marketer. There is usually a tendency for the collective promotion of produce. This is however made possible when farmers form co-operative societies. There are societies such as the Soya Bean Farmers Co-operative Societies and the likes. Since the farmers come under one umbrella with an executive to oversee the Administrative and Marketing functions the promotional decisions are the responsibilities of the executives. Decisions regarding tie price and other incentive schemes are therefore their prerogative. By and large, there is usually a preference for participation in promotional outlets such as Agricultural Shows and cultural events at both the local and state levels. This is partly due to the fact that Government a times subsidizes the costs of such promotions.

3.6.2 Merits and Demerits of Individual and Collective Promotion

a) Merit of Individual Promotion: Although it has been stated earlier on, that collective promotion is more popular, but some advantages of individual promotion of agricultural products can be identified.

i. Where doubts about quality can affect the general demand for a particular agricultural produce individual promotion can restore confidence to stimulate demand.
ii. There is speed in planning and execution of a promotion campaign.

3.6.3 Demerits of Individual Promotion

i. Individual promotion can sometimes be wasteful because of similarities of items. It is therefore not certain that buyers will only come to buy the promoted produce rather than that of t h e competitor.

ii. Individual promotion may be ineffective in agricultural marketingas compared to manufactured goods promotion.

iii. There is relatively higher cost for individual promotion than collective or co-operative form of promotion.

3.6.4 Merits of Collective Promotion

Collective promotion involves the union of farmers or agricultural marketers who undertake a common promotion for their produce. In most cases, their produce would be similar and they have a defined organizational structure to handle the organization and execution of the promotional campaign.

The promoters who may be farmers' groups or co-operative societies have a defined structure that manages the organization and execution of the promotion campaign to the advantage of all the members.

Collective promotion reduces the overall cost of promotion for all the members.

In collective promotion, there is no need for product differentiation which can only add to the cost of products.

3.6.5 Demerits of Collective Promotion

i. Some products within the group may be of inferior quality and therefore collective promotion only helps to promote such poor products.
ii. Collective-.promotion does not stimulate the spirit of entrepreneurship in agricultural marketing.
iii. It is not popular in free market enterprise bee could differentiate his products through proc which makes it possible for him to receive higher prices.

4.0 Self Assessment Exercise

1. Why is market intelligence important in agricultural marketing today?
2. What is the impact of uniform grading on marketing efficiency?

5.0 Conclusion

In this unit you have learnt about sorting, grading and standardization, risk bearing and insurance, financing, market intelligence and promotion.

6.0 Summary

You have learnt that:

- the Sorting is a physical separation of products of different qualities.
- Sorting is a physical separation of products of different qualities
- Grading makes physical examination of the different produce unnecessary since each lot or grade has to conform to a predetermined quality standard. Pricing and
- Operational efficiency in markets can be increased through a uniform grading system due to the following:

✓ Improving quality of products
✓ Reduce advertisement cost
✓ Improves allocation of available supplies
✓ Increases precision in price formation
✓ Increase level of competition
✓ No time lost in bargaining

Other facilitating functions include risk bearing, financing, market intelligence and promotion. There are many merits and demerits of individual and collective promotion.

7.0 Tutor-Marked Assignment

1. Discuss the merits of individual promotion.
2. Discuss the demerits of collective promotion.
3. Discuss the aspect of risk bearing.

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UNIT 4 WAREHOUSING MARKETING POLICIES

1.0 Introduction

Most often produce are not sold immediately after production or purchase. Therefore firms require storage facilities. This unit introduces you to warehousing and marketing policies

2.0 Objectives

In this unit you would learn about:

- Warehousing
- Marketing policies
- Relationship between warehousing and marketing policies
- Different modes of distributing agricultural products in Nigeria
- Impact of freight charges on agricultural produce
- Cost of physical distribution
-

3.0 Main Body

3.1 Warehousing

Rarely are products sold as soon as they are produced; and as such firms would require storage facilities. Two types of warehouses meet this need: the storage warehouses hold goods for a much longer period of time while distribution warehouses serve as way stations for goods as they pass from one location to the other. Warehouses can be wholly owned by firms or space can be rented as needed. Although companies have more control over wholly owned facilities, warehouses of this sort can tie up capital and a firm's resources. Common operations in warehouses usually require the inspection of goods, trading of inventories, repackaging of goods and invoicing. Agricultural produce may be treated with chemicals or other traditional methods to extend their storage life.

3.2 Marketing Policies

Marketing policies are the conditions of sale or terms of sales which the seller usually circulates to their customers. Marketing policies therefore vary from one company to another and will also depend on the nature of goods and services offered.

3.3 Relationships between Warehousing and Marketing Policies

It is necessary for manufacturers to place high premium on storage to guard against consequences of market disruptions. The disruptions can be engendered by many factors such as industrial action by labour or sabotage as is the case with oil installations in the Niger Delta area.

Market participants have continued to seek more efficient financial and operational methods to manage risk in an environment of diminishing profit margin. The storage operators would certainly come in as relief to producers and marketing agents as they will hedge them from transportation and storage risks. The development of an efficient storage system will require government to make enabling laws in order to allow for parties to enter into financial contracts with less bureaucracy.

3.4 Different Modes of Distributing Agricultural Products in Nigeria

The mode of distribution here refers to the physical movement of agricultural produce from one location to another. There are four distinct modes of distributing agricultural produce in Nigeria. These are: rail, road water and air.

i. Railways: The railway system was established primarily for the purpose of evacuating agricultural and mineral products for exports.

The railways have, however, not made any appreciable impact on internal trade. The performance of the railway as a mode of transportation has declined in recent times. The main reasons for railway decline are:

a. Poor management which has necessitated the invitation of foreign managers to resuscitate the railway system without success.
b. The improvement of road transport in goods haulage thus serving as a potent competitor.
c. The decline in freight offerings of what have traditionally been railways most important commodities such as groundnuts and tin.

ii. Road: Road transport has been the backbone of commercial freight movement as fleets of trailers and tankers haul goods across the country every day and night. In general about 80 percent of the movement of goods is affected by road. The road transport business is however plagued by the incessant problems of non-availability or scarcity of essential vehicle spare parts. The roads are also poorly maintained coupled with the fear of armed attacks at night. All these have however not diminished the growing importance of road transport.

iii. Water: The Niger and Benue Rivers and their tributaries form the major inland water way system for the movement of goods and persons. Low water levels whenever there is insufficient rainfall and increasing competition from road transport are the factors that tend to diminish the importance of water transport in Nigeria. If the water transport is to regain its importance, then dredging of the waterways must be undertaken.

iv. Air: There are only four viable international airports in Nigeria. They are the Lagos, Abuja, Port-Harcourt and Kano Airports. Air cargo lifting is therefore relatively small at present. With greater industrialization and the globalization of trade, air transport of cargo will surely increase in importance.

3.5 Impact of Freight Charges on Agricultural Produce

The effects of freight charges on any agricultural produce depend largely on the mode of transport used. The following are factors to be considered.

a. Speed: This is indicated by the time needed to move produce from the point of production to the point of consumption.

b. Frequency of service: The number of vehicles moving between production and consumption points per time period. The less the frequency the higher the freight charges.

c. Dependability: Ability to meet the required period prior to schedule.

d. Operational Capability: This is the ability to handle all kinds of freight from the very large to fragile or perishable crops.

e. Cost: To be more specific, this is the average cost per ton and kilometer, and this will vary depending on the specific mode and the agricultural product being transported.

2.6 Costs of Physical Distribution

Physical distribution or logistics is concerned with the efficient movement of agricultural products from the farmers (production) to the consumers or users. A number of associated activities to be performed are grouped into four main categories called "physical distribution activity centers" namely; transportation, inventory, warehousing and communications. These are costs incurred during the physical distribution of agricultural produce through the activity centers.

i. Transportation Costing: The various cost elements involved in moving produce from origin to destination come under three basic costs.

a. Line haul costs: These are the freight charges for physical movement using any of the modes from one terminal to another.

b. Terminal costs: These are costs incurred for handling freight at transport terminals.

c. Pick-up and delivery costs: The costs for pick-up and delivery within a terminal area.

ii. Inventory Carrying cost: Inventory costs to a farmer can range between

25 per cent and 30 per cent of the value of the inventory. Costs in this category would include cost of capital tied up as inventory, the investment expenses for procuring and maintaining any needed special storage equipment. Also to be considered are insurance (on value) and Tax (on value).

iii. Warehousing Costs: Special consideration should be given to both the fixed and variable costs of maintaining a warehouse. For example, the fixed costs are such items as utilities and salaries. In some cases, space and labourers' costs will be considered as variable with volume. Also to be considered as warehousing costs would be unit loading costs such as packaging and then the handling costs.

iv. Communication Costs: Communication must flow constantly between the farmers, middlemen engaged- in produce marketing and the consumers/ users. This is especially necessary for big farms that will need to receive orders and communicate marketing terms from time to time. Amongst the communication devices today is the mail which is the cheapest: then the courier which is very expensive. However in recent times, the GSM (Global systems) phones and e-mails have become prevalent for very fast communication between two points

All the costs mentioned above have a remarkable impact on the cost of physical distribution of agricultural produce in Nigeria.

4.0 Self Assessment Exercise

1. What are marketing policies?

2. Discuss the various costs of distribution.

3. What are the “physical distribution activity centres”?

5.0 Conclusion

In this unit you have learnt about warehousing, marketing policies, relationship between warehousing and marketing policies, different modes of distributing agricultural products in Nigeria, impact of freight charges on agricultural produce and the cost of physical distribution.

6.0 Summary

You have learnt that:

- Because products are rarely sold as soon as they are produced firms require storage facilities.
- There are two types of warehouses to meet this need.
- First type of storage warehouses hold goods for a much longer period of time.
- The second one is called distribution warehouses which serve as way stations for goods as they pass from one location to the other.
- Common operations in warehouses usually require the inspection of goods, trading of inventories, repackaging of goods and invoicing.
- Agricultural produce may be treated with chemicals or other traditional methods to extend their storage life.

You have also learnt that

- marketing policies are the conditions of sale or terms of sales which the seller usually circulates to their customers.
- the development of an efficient storage system will require government to make enabling laws in order to allow for parties to enter into financial contracts with less bureaucracy.
- the four distinct modes of distributing agricultural produce in Nigeria are the rail, road water and air.
- the effects of freight charges on any agricultural produce depend largely on the mode of transport used. and the factors to be considered are speed, frequency of service, dependability, operational capability and cost.
- physical distribution or logistics is concerned with the efficient movement of agricultural products from the farmers (production) to the consumers or users.
- a number of associated activities to be performed are grouped into four main categories called "physical distribution activity centers" namely; transportation, inventory, warehousing and communications. These are costs incurred during the physical distribution of agricultural produce through the activity centers.

7.0 Tutor- Marked Assignment

1. How would you determine the impact of freight charges on agricultural produce?
2. What is warehousing?

3. What is the relationship between warehousing and marketing policies?

8.0 References and Further Reading

Kohls. R.L. and J.N. Uhl (1980) *Marketing of Agricultural Products* 5th Ed., Macmillan Publishing Company Inc., New York, Chapters 1 and 2.

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MODULE 3 MARKETING AGENCIES

Unit 1 Marketing Agencies

Unit 2 Market Organization and Expansion

UNIT 1 MARKETING AGENCIES

1.0 Introduction

Marketing agencies or intermediaries carry out marketing functions or offer marketing services. This unit examines their activities to enable you understand the part they play in marketing.

2.0 Objectives

By the end of this unit you would learnt about the various types of market middlemen namely:

- Merchant middlemen
- Agent middlemen
- Speculative middlemen
- Processors and manufacturers

3.0 Main Body

3.1 Who are the Marketing Agencies?

Marketing agencies are the middlemen involved in carrying out the marketing functions discussed in MODULE 2. They could be individuals or agribusiness organizations that specialize in performing the various marketing functions involved in the purchase or sale of goods as they are moved from producers to consumers.

Marketing agencies could be individuals acting independently, or they may be partnerships, large firms, cooperatives or government corporations. It is important to distinguish between the various types of middlemen by the functions and services they undertake rather than by their ownership. For example, a farmer who is the producer may also play the role of a rural buyer, wholesaler or retailer.

Marketing middlemen could be classified into four broad groups namely:

a. Merchant middlemen
b. Agent middlemen
c. Speculative middlemen
d. Processors and manufacturers

3.2 Merchant Middlemen

This group of middlemen takes titles to and owns the goods it handles. The merchant middlemen buy and sell for their own gain. Examples of merchant middlemen include the rural buyers, wholesalers and retailers.

3.2.1 Rural Buyers

This group of middlemen undertakes the initial task of assembling produce from farms or local rural markets. They may be farmers who collect the produce of other cultivators. They may be landlords, village shopkeepers, wholesale merchants, processors, cooperatives or government procurement agencies.

The rural buyer may either act on commission or purchase on his own account. He may furnish credit to the farmers. He will probably arrange for the transport of his purchase to a central wholesaling or processing point. He relieves the producers of further marketing responsibilities.

3.2.2 Wholesalers

The wholesaler has a central role to play in a marketing system. He takes the product from farms or rural buyers and sells to retailers, to other wholesalers in the domestic and foreign markets arc to processors and manufacturers, Wholesalers need a lot of capital to be able to have in stock large assortments of goods. Thus they normally take loans from the banks to do their marketing business and bear most of the marketing risks. Some of the conditions necessary for effective wholesaling business include:

i. A place of business with accounting and communication facilities,
ii. Access to capital and
iii. A good knowledge of the product handled.

3.2.3 Retailers

The main function, of the retailer is to obtain supplies and display them for sale in forms and at times and places convenient for the consumers. Usually the retailer buys from one or more wholesalers, sometimes on credit and serves consumers who buy smaller quantities on day to day basis.

Frequently, retailers sort, process and repack food to suit consumer's individual requirements. This may take place while the consumer watches, as in cutting of meat or behind the scene where prepackaging is acceptable as in the packing of *garri* into bags by *garri* traders in Bendel State. One marketing firm may control a number of retail outlets and it may set up its own buying organization which acts as a wholesale supplier. Such chain store buying agencies may deal directly with processors, large producers or producer groups. By so doing the retailing agency obtains price advantage through large scale purchases.

3.3 Agent Middlemen

This group of middlemen acts only as representatives of their principals. They do not normally take title to, and therefore do not own the products they handle. They receive their income in form of fees and commissions. Agent middlemen in reality sell services to their clients and not physical goods to consumers.

There are two types of agent middlemen, namely the commission men and the brokers.

3.3.1Commission Agents

Producers and wholesalers frequently want to offer their produce in markets where they cannot conveniently attend in person. Commission agents specialize in buying for such people and take

charge of the goods on their behalf. They are encouraged to behave well to their clients by being paid a percentage of the price obtained. Commission agents do not normally bear marketing risks since they are operating for their principals. Commission agents are used mainly when direct offers tend to be low, or where monopsony buying is in operation. For example, the licensed buying agents (L.B.As) of the defunct commodity boards were commission men. Even now the cotton merchants have commission men buying cotton for them in the rural cotton markets. Commission agents have more powers to take decisions on behalf of their principals.

3.3.2 Brokers

This group of middlemen brings potential buyers and sellers together The function of this group is to provide an intimate knowledge of supplies, requirements and prices in various markets. The term "broker" is restricted to agents who do not take title to or physically handle goods. The actual transfer of ownership takes place between the original buyer and seller, with the broker acting as a counsellor and intermediary in return for a fee.

Brokers are in touch with *a* wide selection of specialized dealers and are we!! supplied with up to date information on markets and prices Brokers can therefore offer a wider market than would otherwise be accessible to the buyer or seller.

3.4 Speculative Middlemen

This group of middlemen buys the products with the aim of selling them at a time when prices rise. They often attempt to earn their profit from short-run fluctuations in prices. Other names used for speculative middlemen are hoarders and spreaders.

Speculative middlemen could be wholesalers or retailers who are to take greater risks. Though their immediate motive is profit, they can also perform a useful service, known as arbitrage. They buy when prices are low and resell when prices rise. They may also buy and sell in different areas when there are differences in prices over space. If there is competition, this kind of buying and selling is useful because it can prevent prices from fluctuating between wider extremes.

3,5 **Processors and Manufacturer**

These are mainly agribusiness firms that undertake some action on farm products to change their form. Sometimes they function as buying agents in the producing areas. Some also undertake the wholesaling of their finished products to retailers for example, meat packers, flour mills, fruit and vegetable canners, such as Vegfru Company and Nasco Cornflakes Company in Jos.

4.0 Self Assessment Exercise

1. Discuss the nature and types of middlemen involved in agricultural marketing in Nigeria.

5.0 Conclusion

In this unit you have learnt about the various types of market middlemen namely, merchant middlemen, agent middlemen, speculative middlemen, processors and manufacturers.

6.0 Summary

In this unit you learnt that:

- Marketing agencies are the middlemen involved in carrying out the marketing functions

- Marketing middlemen are classified as merchant middlemen, agent middlemen, speculative middlemen and processors and manufacturers.
- Merchant middlemen take titles to and own the goods they handle. They buy and sell for their own gain.
- Examples of merchant middlemen include the rural buyers, wholesalers and retailers.
- Agent middlemen sell services to their clients and not physical goods to consumers. They earn their incomes in form of fees.
- The two types of agent middlemen are the commission men and the brokers.
- Speculative middlemen buy the products with the aim of selling them at a time when prices rise.
- The processors are the agribusiness firms that undertake some action on farm products to change their form.

7.0 Tutor-Marked Assignment

1. Write short notes on the Agent middlemen.

2. Write short notes on the merchant middlemen.

8.0 References and Further Reading

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UNIT 2 MARKET ORGANIZATION AND EXPANSION

1.0 Introduction

Another area of interest in the study of marketing is how middlemen and institutions are grouped together in carrying out the marketing functions. The grouping of middlemen and institutions is referred to market organization.

2.0 Objectives

By the end of this unit you should be able to describe:

- market channels for different agricultural products
- marketing chains for different agricultural products
- market integration and
- growth by diversification**.**

3,0 Main Body

3.1**Marketing Channel**

A marketing channel is simply the path of a commodity from its raw form to the finished form or the path of a product as it moves from the producers to the final consumers. Marketing channels are important in evaluating marketing systems because they indicate how the various market participants are organized to accomplish the movement of a product from the producer to the final consumer.

The two types of marketing channels are (i) centralized channel and (ii) decentralized channel.

A centralized marketing channel is one in which the farmer's products are brought together in larger central and terminal markets. There they are purchased by the processors or wholesalers from commission men and brokers who act as the farmer's selling agents. A decentralized channel on the other hand is one that does not use such established large market facilities, rather, wholesalers and processors purchase directly from the farmers. The marketing channel for agricultural products in Nigeria is mainly the decentralized type. Figures 3.1, 3.2, 3.3, 3.4 show the marketing channels for different agricultural products in Nigeria.

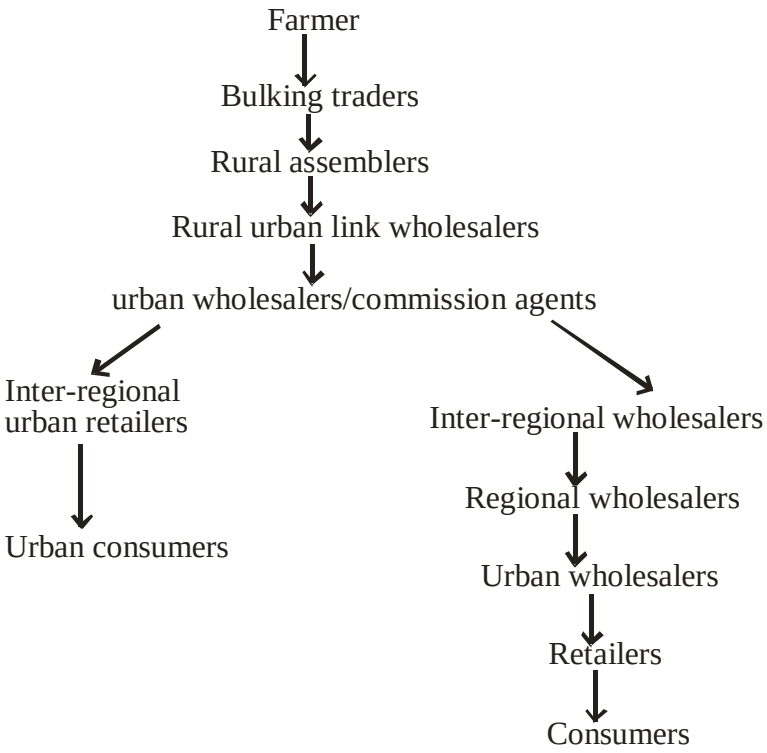

Figure1 Generalized marketing channel for food grains in Nigeria
(Adapted from H.M. Hays, 1973

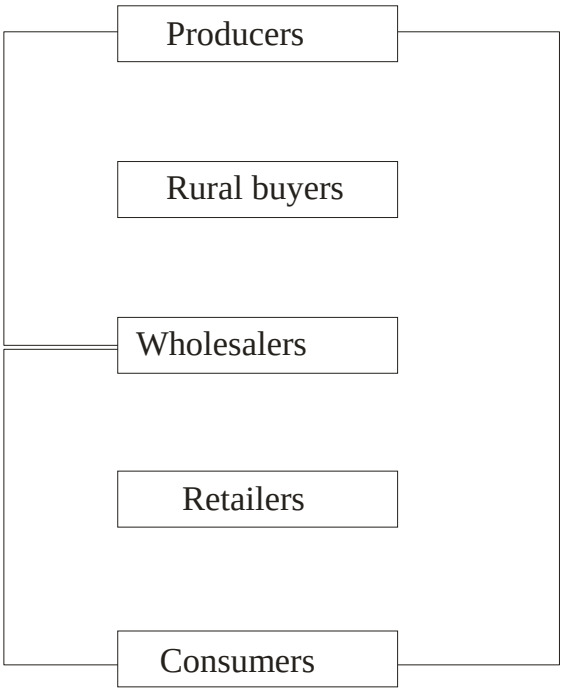

Figure 2 : Marketing channel for cowpeas

3.2 Marketing Chains

The marketing chain describes **the succession of markets through which products** pass until they **reach the consumers.** Marketing chain is part of the marketing channel. The study of marketing chain is important in that it reveals the relative importance of various markets or exchange points in the marketing system.

Some commodities have a long marketing chain, for others the chain is short. Along marketing chain implies that the commodity changes hands many times before reaching the final consumer. The longer the chain is, the higher the price that the consumer will have to pay for the commodity. The length of the chain depends on the nature of the commodity and how far the consumers are from the producing areas. Figure 3.5 is an example of a marketing chain for food crops.

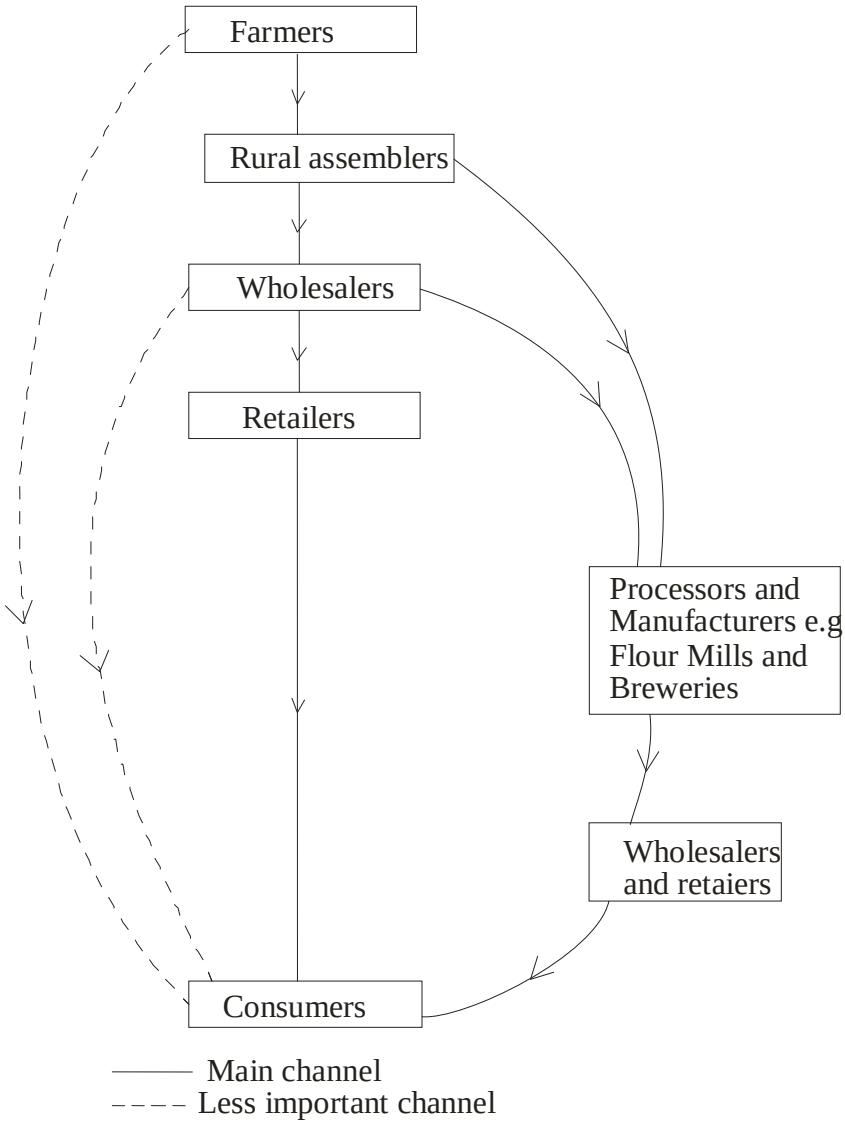

Figure 3: Marketing channel for maize in Nigeria

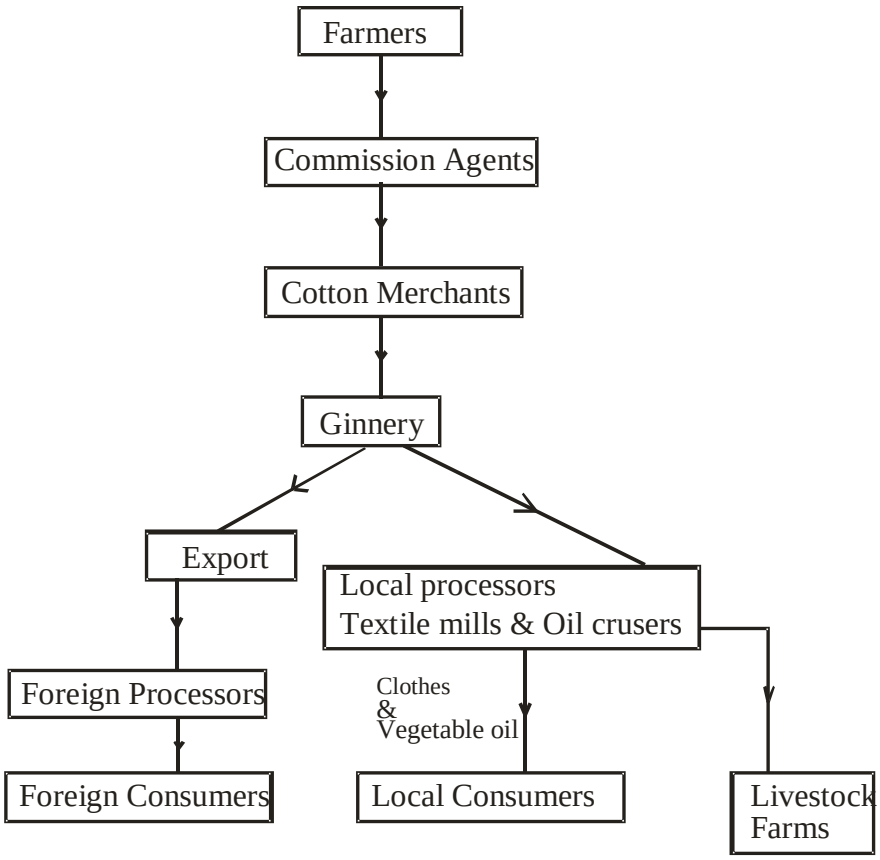

Figure 4: Marketing channel for seed cotton

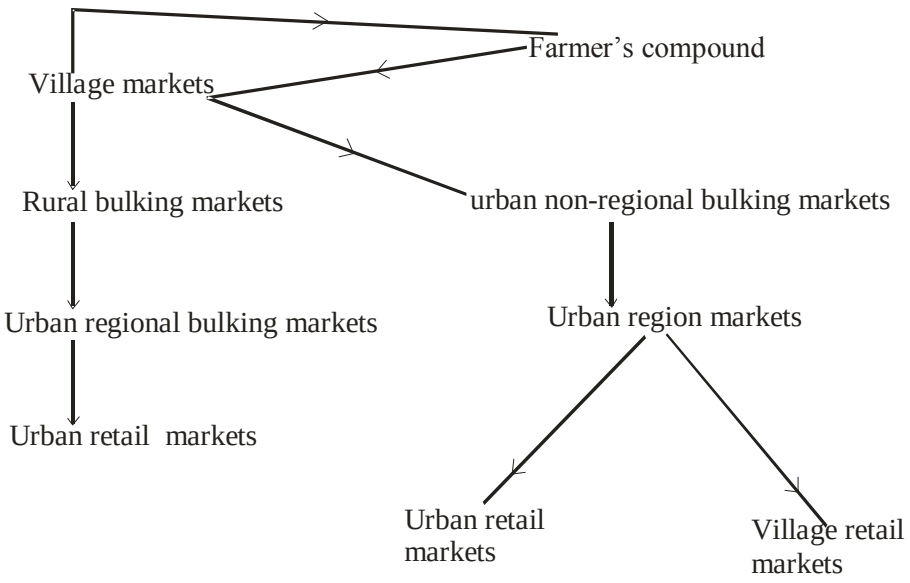

Figure 5: Marketing chain for food crops

3.3 Organizational Expansion

There are two main ways in *which* marketing firms can grow in size, namely integration and growth by diversification.

3.3.1 Market Integration

Market integration is the grouping of firms that perform similar functions under one management. It enables marketing firms and agribusiness firms to grow in size and increase their market power.

There are two types of integration: namely vertical integration and

horizontal integration.

Vertical integration: This is one in which a firm combines activities which are not similar to its present function but related to them in sequence of marketing activities. The simplest meaning of vertical integration is 'Ownership'. When a firm owns two or more levels of production or marketing, it is vertically integrated. A livestock feed company which feeds its own livestock rather than selling the feed alone is said to be vertically integrated. Likewise a meat packer which owns retail stores and sells meat directly to consumers is vertically integrated. For example, a meat packer may decide to increase the scope and size of its firm by integrating backwards to reach the producers by opening buying points for livestock or producing his own livestock and integrating forward to reach the consumers by opening up cold stores, or supermarkets and other retail points.

Horizontal integration: This refers to a situation where a firm gains control over other firms performing similar activities at the same level in the marketing sequence. For example, small firms that handle dairy products could decide to merge with bigger and more viable ones. In the same vein smaller firms that handle processed meat could decide to merge with bigger firms in the same business. Such mergers enable the firms involved to enjoy a wider market share of the product and also to exercise greater market power. In some countries, the governments enact laws to discourage excessive merger of big firms with a view to discourage monopolistic and oligopolistic tendencies.

3.3.2 Growth by Diversification

This is the growth in size or expansion of marketing firms or agencies by the merger of organizations that do not have any direct relationship to the activity of the individual firms. For example, Leventis Group consists of firms engaged in brewery, meat processing, supermarkets, farming, glass production, bottling of soft drinks etc. UAC also comprises of Kingsway, SCOA Motors, bottling firms, breweries, farming, etc. All these integration efforts are attempts to organize or co-ordinate the marketing firms to obtain increased operating efficiency or wider market power in the selling or buying process. Other advantages of integration are as follows:

a. It has effect of shortening the marketing chain between the producer and the final consumer. Integration thus helps to reduce marketing margin.

b. Integration could increase the profit of a firm because it may place a firm in a more advantageous bargaining position while its greater share of the market power could help the firm to influence the market price.

c. Integration could also enable a firm to operate with greater efficiency and lower cost. It guarantees steady supply of inputs to agribusiness firms and ensures uninterrupted flow of products to consumers.

However, some of the disadvantages of market integration is the concentration of market power in a few firms. For example, vertical integration of a firm already possessing substantial market power may be anti-competitive because it may make entry more difficult for potential competitors and it gives the integrated firm the power to exert a price squeeze. For example. a flour mill that dominates milling and then integrates forward into baking could squeeze the other bakers by raising flour price to them.

4.0 Self Assessment Exercise

1. Distinguish between marketing chain and channel.

2. What is horizontal integration?

5.0 Conclusion

In this you have learnt about market channels for different agricultural products, marketing chains for different agricultural products, market integration and growth by diversification**.**

6.0 Summary

In this unit you learnt that:

- A marketing channel is the path of a commodity from its raw form to the finished form or the path of a product as it moves from the producers to the final consumers.
- There are two types of marketing channels namely centralized channel and decentralized channel.
- A centralized marketing channel is one in which the farmer's products are brought together in larger central and terminal markets. There they are purchased by the processors or wholesalers from commission men and brokers who act as the farmer's selling agents.
- A decentralized channel on the other hand is one that does not use such established large market facilities, rather, wholesalers and processors purchase directly from the farmers.
- A marketing chain describes the succession of markets through which products pass until they reach the consumers.
- Marketing chain is part of the marketing channel.
- Some commodities have a long marketing chain, for others the chain is short.
- A long marketing chain implies that the commodity changes hands many times before reaching the final consumer.

You also learnt that:

- There are two main ways in *which* marketing firms can grow in size, namely integration and growth by diversification.
- Market integration is the grouping of firms that perform similar functions under one management.
- There are two types of integration: namely vertical integration and horizontal integration.
- Vertical integration occurs when a firm combines activities which are not similar to its present function but related to them in sequence of marketing activities.
- Horizontal integration refers to a situation where a firm gains control over other firms performing similar activities at the same level in the marketing sequence.
- Growth by diversification is the growth in size or expansion of marketing firms or agencies by the merger of organizations that do not have any direct relationship to the activity of the individual firms.
- Integration also has effect of shortening the marketing chain between the producer and the final consume, thus helps to reduce marketing margin.
- Integration could increase the profit of a firm by placing a firm in a more advantageous bargaining position .
- Integration could also enable a firm to operate with greater efficiency and lower cost.
- Some of the disadvantages of market integration is the concentration of market power in a few firms thus leading to anti-competitiveness.

7.0 Tutor –Marked Assignment

1. What is vertical integration?
2. What are the advantages and disadvantages of market integration?
3. Describe the two types of marketing channels?

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Module 4 MARKET STRUCTURE ANALYSIS

Unit 1 Characteristics of Market Structure
Unit 2 Types of Market Structures
Unit 3 Market Conduct and Performance

UNIT 1 CHARACTERISTICS OF MARKET STRUCTURE

1.0 Introduction

The concept of market structure is used to study the number, size distribution and power of market participants. This concept was made popular by the industrial organization economists but its application in the study of agricultural marketing is growing very fast. The main application of the market structure model has been in the developed countries: however, its usefulness may I being realized in less developed countries as well.

2.0 Objectives

By the end of this unit you should know what market structure is all about.

3.0 Main Body

3.1 Market Structure Defined

Market structure can be defined as those characteristics of the organization of a market which seem to influence strategically the
nature of competition and pricing within the market. Among the
factors considered important in determining market structure are:

a. the number and relative size of buyers and sellers.
b. the degree of product differentiation
c. the ease of entry and exit of buyers and sellers into and out of the market
d. status of knowledge about costs, prices and market conditions among the participants in the market.

Market structure relates essentially to the degree of competition by a market. It tends to consider whether the number of firms producing a product is large or whether the firms are of equal sizes or dominated by a small group. It is also concerned with whether entry for new firms is easy or difficult and whether the purchase of the product is in a competitive state or not. Structure also relates to the degree of market knowledge which is available to these firms. These factors are considered one by one in the next few sections.

3.1.1 Number and Size of Firms

The concept of market structure is used to explain some of the most important limits upon the freedom of action, and therefore the managerial options of any buyer or seller. In general, the effect of the relative size of buyers and sellers is pretty obvious. A single large seller, lacking any close competitor and offering a highly desired product to many small, competing buyers has the

capacity to set a very high price The opposite of such monopoly power in selling is a single large buyer who buys from many small, competing sellers. This single buyer (monopsonist) is likely to set a buying price lower than if several other buyers were competing with him

3.1.2 Nature of the Product

Some products are standardized (homogenous,; Most covers feel the product of one seller is virtually not different from those of other sellers. For example, a farmer selling cassava or maize will find it difficult to convince buyers that his product is different. The contrast is that of livestock feed for which there are different brands. Examples are Sambo Feeds, Pfizer Feeds, Sanders Feeds, Top Feeds, Vital Feeds, Animal Care Feeds, Rebson Feeds and Noma Feeds. Each feed mill claims that his product is different or better in quality than others. The livestock farmers also believe that the feeds are different in quality, that is, the products are different in the eyes of the buyers.

Where product differentiation exists it is possible for firms selling differentiated products to act like small monopolies. The firms need not fear that price undercutting will completely erode the markets for their products. Thus the nature of the product will help to determine the types of behaviour that can be anticipated under different market situations

3.1.3 Entry and Exit Conditions

This refers to the ability of a firm to enter or leave a market. There are definite barriers that might exist. For example, products that are patented cannot be produced and sold by firms other than the firm which holds the patents for a period of time. In addition to patents, there may be other legal restrictions which forbid other firms from participating in the market. For an example, the government could create monopsony firms like the defunct cotton boards. Other factors that may influence entry and exit include absolute cost advantages held by existing firms or absolute entry costs that are prohibitive. An example of the latter is the substantial capital requirements associated with undertakings in the steel industry or the large capital needed to enter produce buying business or large capital for one to enter the poultry business.

3.1.4 Market Knowledge

This refers to the information available to buyers and sellers that enables them to take decisions in the market environment in which they operate. It is believed that buyers and sellers will make more rational decisions if they have more information at their disposal pertaining to prices in different markets and the qualities of the various products. Market knowledge extends beyond information concerning prices as it also includes knowledge of the actions that competitors take as well as information about future market conditions.

4.0 Self Assessment Exercise

How does the nature of product affect the behavior in the market?

5.0 Conclusion

In this unit you have learnt about market structure that determines the behaviour of the market system.

6.0 Summary

In this unit you have that:

- Market structure is defined as those characteristics of the organization of the market which seem to influence strategically the nature of competition and pricing within the market.

- Factors which determine market structure are:
  - ✓ the number and relative size of buyers and sellers,
  - ✓ the degree of product differentiation,
  - ✓ the ease of entry and exit of buyers and sellers into and out of the market
  - ✓ the status of knowledge about costs, prices and market conditions among the participants in the market.

- The larger the number of buyers and sellers the greater the degree of competition

- The greater the degree of product differentiation the higher the prices that individual firms can charge for their products

- The easier the entry and exit of firms into the market the greater the degree of competition

- The greater the rate of information flow about costs, prices and market conditions among participants the greater the level of competition.

7.0 Tutor - Marked Assignment

1. Discuss the importance of number and relative size of sellers and buyers to market behaviour.

2. Discuss the importance of status of knowledge among participants to market behaviour.

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UNIT 2 TYPES OF MARKET STRUCTURES

1,0 Introduction

Having learnt about the characteristics of market structures in the previous unit, it is necessary to learn about the types of market structures. This will enable you to appreciate the behaviour and performance of participants in the market system.

2.0 Objectives

By the end of this unit, you should be able to describe the four basic types of market structures which are:

- Atomistic (or pure) competition
- Monopolistic competition and Monopsonistic competition
- Oligopolistic competition and Oligopsonistic competition
- Pure monopoly.

3.0 Main Body

3.1 Atomistic or pure competition

This is a situation where there are many firms on the seller side of the market that produce and sell a product which is standardized in the eyes of the buyers. A purely competitive market is also characterized as one that has virtually no barriers to entry or exit. The level of market knowledge is used to distinguish between pure and perfect competition. Where the three characteristics mentioned above exist we say it is a state of pure competition, but if in addition there is the existence of full market knowledge or perfect market knowledge, we call it a perfect market or perfect competition. The same term 'Pure competition' is used on the buyers' side of the market where there are many buyers purchasing a standardized product. Atomistic competition is difficult to find in practical life situation but the agricultural sector most closely illustrates it.

3.2 Monopolistic and Monopsonistic Competition

This is a situation where there are many firms selling differentiated products. It is a state of competition because many sellers are involved. The only difference between this and pure competition is in the nature of the product-differentiated product. The feed mills are typical examples of this market structure. There are many feed mills scattered all over Nigeria but they all sell differentiated products as branded formula feeds and feed supplements. What do we mean

by product differentiation? A product is said to be differentiated if it is a little bit different in the eyes of the buyers. The difference may be in the nature of the product, the quality of the product or in such aspects of packaging, branding or conditions of sale. For example, Coca cola and Pepsi are both soft drinks but they are different in the eyes of the buyers. They may differ in taste, the brand names are different and the bottles are different.

The models of monopolistic and monopsonistic competition have the structural characteristics of (a) many buyers and many sellers, (b) product or service differentiation, and (c) relatively easy entry or exit. Since the products are-differentiated, it generally pays the firms to engage in merchandising (advertising), sales promotion, product and service improvement through research and development. Secondly, product differentiation permits each firm to set its own price. Thus a firm selling in a market under monopolistic competition is a "price marker" not a "price taker".

3.3 Oligopolistic and Oligopsonistic Competition

This is the type of market structure in which few firms are engaged in buying and selling, if few firms are engaged in selling a homogenous product, this is referred to as purely oligopoly. On the other hand, a situation where a few firms are engaged in selling differentiated products is referred to as differentiated oligopoly.

On the buying side of the transaction, few firms or buyers that buy a homogenous product is referred to as pure oligopsony and a situation where a few buyers buy differentiated product is referred to as differentiated oligopsony. In all cases of oligopoly or oligopsony, entry into the market is difficult and even, in a few cases, virtually impossible.

Oligopolistic firms are price makers when they have differentiated products. Pricing tends to be a delicate issue in oligopoly market structure because of the fewness of firms participating in the market. Thus any foreseeable gain in the market share of one firm usually leads to a perceptible loss in the market share of one or more of its few competitors. Hence, any simple move by one firm such as price cut which erodes the market share of other rivals will result in a price war.

One marked feature of oligopoly market structure is the interdependence of the few buyers and sellers involved in the market, such interdependence could lead to collusion. While interdependence may limit the managerial discretion of a firm, it could also provide marketing or procurement opportunities not available in the competitive market structures. These opportunities revolve around the fact that certain actions taken in recognition of mutual interdependence may benefit the whole group. Under this structure, it is common for a big firm among the few sellers that has a larger proportion of the market share, to play the role of price leadership while the other firms follow suit. Oligopolies with homogeneous products have nearly identical prices while oligopolies with differentiated products may have a considerable variety of prices.

3.4 Pure Monopoly

This is a market structure in which there is a single firm selling a unique product. A monopoly is also characterized by completely blocked entry conditions and the continued effort to keep the market to itself, On the buyer's side, a market structure in which there is a single buyer buying a unique product is called monopsony market. Monopsonies may exist in geographically restricted areas where there may be only one purchaser of farm products in certain highly dispersed farming areas. This one buyer thus has influence over the price he pays those sellers with whom he or she deals. A monopsonist can retain his or her position only by blocking the

entry of other buyers in the market in which he operates. An example of a monopsonist in Nigeria was the defunct Cotton Board which was the only body empowered by law to purchase and gin seed cotton produced in Nigeria. Table 1 summarizes the different types of structural characteristics.

Table 1: Market Structure in the Agricultural System.

Structural Characteristics		Market Structure	
No. of Firms	Nature of product	(a) Seller side	(b) Buyer side
1 Many	Standardized	Pure competition	Pure competition
2 Many	Differentiated	Monopolistic competition	Monopsonistic competition
3 Few	Standardized	Pure Oligopoly	Pure Oligopsony
4 Few	Differentiated	Differentiated Oligopoly	Differentiated Oligopsony
5 One	Unique	Monopoly	Monopoly

4.0 Self Assessment Exercise

1. Describe the conditions that pertain to atomistic competition.
2. Describe the conditions that pertain to pure monopoly.

5.0 Conclusion

In this unit you have learnt about the four basic types of market structures which are atomistic (or pure) competition, monopolistic /monopsonistic competition, oligopolistic /oligopsonistic competition and pure monopoly.

6.0 Summary

In this unit you have learnt that:

- Pure competition is a situation where there are many firms on the seller side of the market that produce and sell a product which is standardized in the eyes of the buyers and it is characterized as one that has virtually no barriers to entry or exit.
- Perfect competition exists if in addition to the above pure competition conditions, there is the existence of full market knowledge or perfect knowledge.
- A product is said to be differentiated if it is a little bit different in the eyes of the buyers
- Monopolistic competition is a situation where there are many firms selling differentiated products. It is a state of competition because many sellers are involved.
- Monopsonistic competition is a situation where there are many buyers buying differentiated products. It is a state of competition because many sellers are involved.
- Product differentiation permits each firm to set its own price. Thus a firm selling in a market under monopolistic competition is a "price marker" not a "price taker".
- Oligopolistic competition is the type of market structure in which few firms are engaged in selling. If few firms are engaged in selling a homogenous product, this is referred to as purely oligopoly. On the other hand, a situation where a few firms are engaged in selling differentiated products is referred to as differentiated oligopoly.
- Oligopsonistic competition is the type of market structure in which few firms are engaged in buying. If few firms are engaged in buying a homogenous product, this is referred

to as purely oligopsony. On the other hand, a situation where a few firms are engaged in buying differentiated products is referred to as differentiated oligopsony.

- Pure Monopoly is a market structure in which there is a single firm selling a unique product. A monopoly is also characterized by completely blocked entry conditions and the continued effort to keep the market to itself,
- Pure monospsony is on the buyer's side, is a market structure in which there is a single buyer buying a unique product. A monopsony is also characterized by completely blocked entry conditions and the continued effort to keep the market to itself.

7.0 Tutor – Marked Assignment

1. Define the following:

   a. Monopoly
   b. Oligopoly
   c. Monopsony
   d. Oligopsony
   e. Pure competition

2. Compare and contrast the following:
   a. Monopoly and monopsony
   b. Pure competition and puree monopoly
   c. Pure competition and perfect competition

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UNIT 3 MARKET CONDUCT AND PERFORMANCE

1.0 Introduction

In the previous two units you have learnt about the characteristics and types of market structures that lead to market conduct. The ultimate goal is to show you how the structure and the conduct lead to the performance of the market.

2.0 Objectives

By the end of this unit you should be able:

- to describe market conduct and linkage to market structure
- to describe market performance and linkage to market structure and conduct

3.0 Main Body

3.1 Market Conduct

Market conduct relates to the behaviour of the firms or the decision that firms make relating to their pricing and output policy and other competitive tactics. Market conduct is related to market structure. In other words, market conduct refers to the actions which firms follow in adopting or adjusting to the market in which they buy and sell. It includes the method employed by groups of firms in determining price and output, sales promotion policies, policies that are directed at altering the nature of the product sold and various selling tactics that are employed to achieve specific market results. The most important factors used in assessing market conduct are:

a. Methods of determining price and output.
b. Sales promotion policy
c. Product policy
d. The presence or absence of exclusionary tactics directed against established rivals or potential entrants.
e. Research and development.

Since market conduct refers to certain behavioural characteristics of firms in the market it therefore specifically amount other things refers to:

i. Pricing practices which encourage grading and standardization of agricultural commodities;
ii. Uniformity of market charges:
iii. Pricing practices free of collusion and unfair tactics as well as black marketing; and
iv. Pricing policies which encourage product quality improvement and greater consumer satisfaction.

Market conduct is heavily influenced by the market structure. It is the link between market structure and performance. Since the behaviour of sellers in a market could adversely affect the efficiency of the entire system, government throughout the world watch closely the conduct of the market with a view to taking remedial actions when the conduct is being pursued is viewed *as* inimical to efficient marketing.

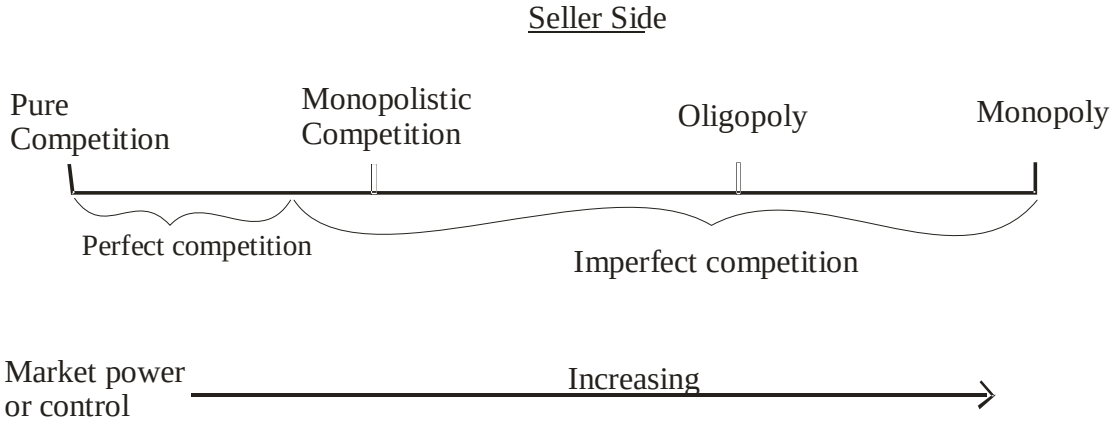

Figure 6: Various market structure

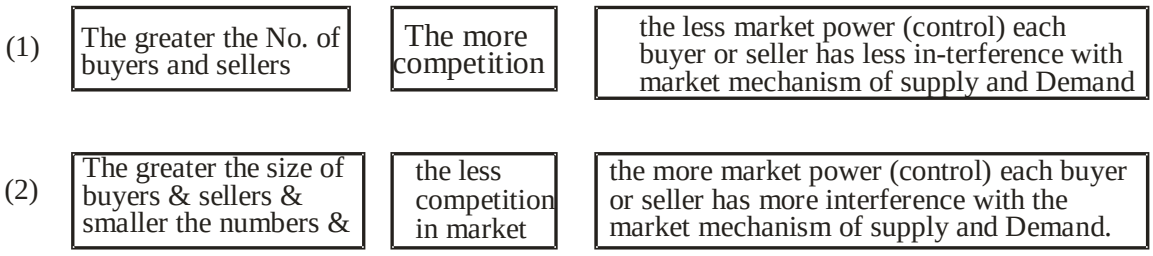

Figure 7: Effect of number and size distribution of buyers and sellers on market power.

3.2 Market Performance

This is a concept that is related to structure and conduct. **It is defined as the strategic end result of market adjustments engaged in by buyers and sellers.** In other words, market performance is the appraisal of the extent to which the interactions of buyers and sellers in a market stimulate results that are consistent with social purposes.

The main features used in assessing market performance are:

a. The level of profit;

b. Scale and utilization of plants and firms;

c. Sales and promotion costs;

d. Character of the product and progressiveness.

Market performance, in other words, is the assessment of how well the process of marketing is carried out and how successfully its aims are accomplished. Specifically market performance is connected with:

i. Technological progressiveness ;
ii. Growth orientation of agricultural firms
iii. Efficiency of resource use; and
iv. Product improvement and maximum market services at the least possible cost.

It is difficult to measure market performance because of the subjective nature of performance measures. However, performance measures could be modified to suit the nature of the particular problem The term performance has come into increasing use in place of efficiency even though it is less precise but probably more generally applicable, Performance is believed to be more generally applicable because it embraces a wider dimension than efficiency, thereby giving a better picture of the marketing system..

3.3 Possible Achievements Market Structure, Conduct Can Performance Can Produce

If market structure, conduct performance are well applied, they can help in shaping the marketing system in the country and can help in achieving these specific aims:

i. The resources committed to marketing will be efficiently used.

ii. More workers can be employed since there will be increased production and hence increased marketing services

iii. There will be better or lower consumer prices, with reasonable returns to the producers, enough to encourage them to increase their production.

iv. It would ensure that pre- harvest losses are kept to the minimum since there will be available storage facilities in the marketing channels.

v. Consumers will be aware through education and advertisement of the movement of prices, as well as the quality of products they wish to buy.

vi. Farmers, middlemen and consumers will also have complete information which they all need for planning so as to estimate production and watch price movements.

4.0 Self Assessment Exercise

1. Discuss what is meant by market conduct.
2. Discuss what is meant by market performance.

5.0 Conclusion

In this unit you have learnt about market conduct and performance and how they are related to structure. You also learnt about possible achievement derivable from the structure, conduct and performance concept.

6.0 Summary

In this unit you have learnt that:

- Market conduct relates to the behaviour of the firms or the decision that firms make relating to their pricing and output policy and other competitive tactics.
- Market conduct is related to market structure.
- Since the behaviour of sellers in a market could adversely affect the efficiency of the entire system, it follows that it can equally affect the performance.
- Market performance is defined as the strategic end result of market adjustments engaged in by buyers and sellers.

You have also learnt that there are possible achievements market structures, conduct and performance can help to make in the economy if properly applied.

7.0 Tutor – Marked Assignment

1. What is market conduct? What factors are used to assess market conduct?
2. What factors do you consider important in assessing performance?
3. Enumerate potential achievement of structure, conduct and performance concept.

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MODULE 5 MARKETING MARGINS, COSTS AND EFFICIENCY

Unit 1 Marketing Margins
Unit 2 Marketing Costs
Unit 3 Marketing Efficiency

UNIT 1 MARKETING MARGINS

1.0 Introduction

In the previous module you learnt about market structure, conduct and performance. You learnt that business firms or concerns behave according to the dictates of the market structure. Other important driving force is how much return they make on top of the costs of their endeavour. This unit and subsequent two units deal with the marketing margins, the costs and efficiency.

2.0 Objectives

By the end of this unit you would be able to:

- determine marketing margin
- describe what brings variability in marketing margins
- discuss the incidence of margin changes

3.0 Main Body

3.1 Marketing Margin

This refers to the difference in prices paid for a commodity at different stages of the marketing system. Time, place, form and possession are important factors that affect marketing margin. Therefore, marketing margin represents difference in price of a given commodity at different stages of time, form, place and possession as it moves from the primary producer to the ultimate consumer. For example, the difference between the price paid to the primary producer (farmer) for 100kg bag of paddy and the wholesale or retail price of the milled rice derived from that paddy represents the market margin.

Marketing margin could be considered from the following two points of view:

a. Marketing margin is the difference between the price paid by consumers and that received by the producers, and

o. Marketing margin is the outcome of the demand for and the

supply of such services.

Under the first definition, marketing margin is simply a difference between the primary and derived demand for a particular product. For example, if consumers want to eat bread, the demand for bread is primary demand while the demand for wheat which is needed to produce the bread is derived demand. In the same manner, the supply of wheat grain is primary supply while

the supply of bread is derived supply. Thus a retail price is established at the point where the primary demand and the derived supply intersect as shown in Figure 8. The farm level price is established at the intersection of the derived demand and primary supply curves. The difference between the retail price and farm level price is the marketing margin.

The second definition refers to marketing margin as the price of a collection of marketing services. This price is a function of the demand for and supply of all such marketing services, which include such items as assembly, processing, transportation and retailing. Marketing margin differs from one product to another because the marketing services needed also differ from product to product. Some products are highly perishable, consequently they require specialized handling, storage techniques and processing. Examples of highly perishable products are fruits, vegetables and dairy products.

3.2. The Size of the Marketing Margin

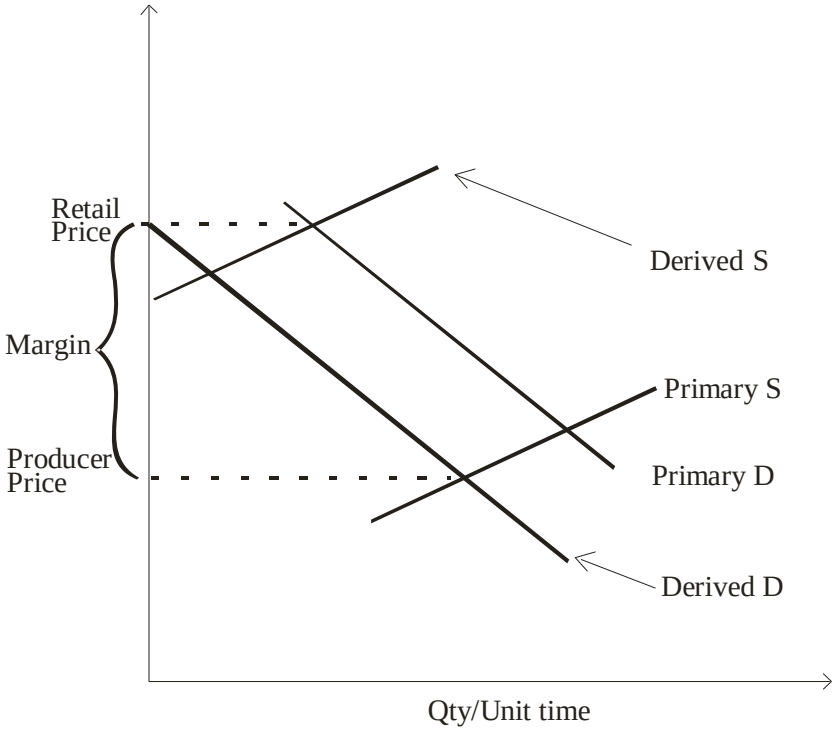


Figure 8: Graphical determination of marketing margin

The magnitude of the total marketing margin reflects the effect of the product characteristics on the complexity of the marketing functions that must be performed as the product passes through the marketing system. Thus the marketing margin varies from product to product depending on the following characteristics:

i. Processing

Products that need to be processed into different forms as desired by consumers usually attract higher marketing margins. The more work that must be done in changing the form of a product and providing the services to satisfy the consumer, the greater the marketing charges will be.

ii. Perishability

Marketing of perishables such as fruits and vegetables is usually more costly than marketing non-perishables because product deterioration is greater. Expensive refrigerators may be needed to transport the perishables through the different stages in the marketing channel. For example, transporting frozen fish from Lagos, Port Harcourt and other Nigerian ports to the north require specialized refrigerated vans.

iv. Bulkiness in Relation to Value

Some products require more space in both transportation and storage. This inevitably increases the marketing charges. Food grains like maize, sorghum, cowpea and millet are bulky and often cost up to ₦100 per 100kg bag to transport from one market to another, depending on the distance.

v. Extreme Seasonally of the Product

Commodities that are seasonal require facilities that may only be partially used during the rest of the year, if such commodities are also perishable increased marketing costs result. If a product is harvested only in one season of the year storage may be required leading to greater storage and handling costs.

vi. Institutional Factors

Institutional factors such as a high degree of vertical integration or a highly organized system of accurate market information might give rise to differences in the size of the marketing margin. Vertical integration of marketing firms could result in lower marketing margin because it shortens the marketing chain Viewed from another angle, vertical integration of marketing firms could result in higher marketing margin because the marketing firms through integration could gain market power and control over the price paid by consumers. A highly organized system of accurate market information might give rise to differences in the size of the marketing margin because availability of reliable market information could keep the consumer aware of the prices that obtain in different markets. Table 2 shows that the marketing charges range between 31 and 85% while the farmer's share of the consumers' naira for the selected food crops range from 15 to 69%.

Table 2: Marketing changes and the farmer's share of the consumers' naira for selected food crops

Food product	Market charges	Farmers share
Egg	31	69
Beef	40	60
Pork	44	56
Fluid milk	56	44
Wheat bread	81	19
Tomato s (canned)	85	15

Table 3 shows that marketing margin varies from crop to crop and from one location to another.

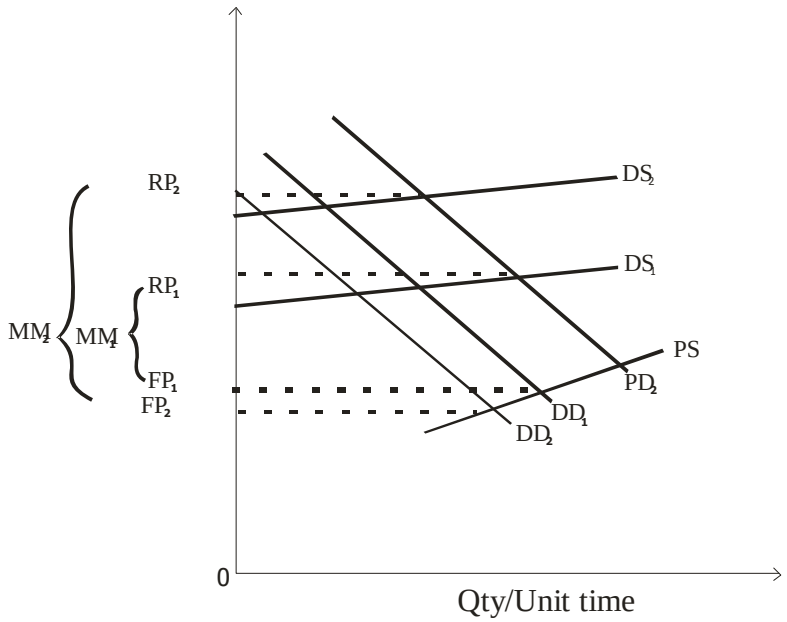
The marketing margin can be computed using the following formula:

$$\text{Marketing Margin} = \frac{\textbf{Selling price} - \textbf{Supply price}}{\textbf{Selling price}} \times 100$$

3.3. Incidence of Margin Changes

Marketing margin is not static. It changes over time because it is determined by the intersection of the primary demand and derived supply on the one hand and the derived demand and primary supply on the other hand. Therefore any change that affects the demand and supply relations will also affect the marketing margin. Whenever there is a change in the marketing margin it is likely to affect either the price received by the producer or the price paid by the consumer or both. Whichever way it goes depends on the slope and elasticity of the demand and supply curves.

If the slopes of the demand and supply curves are equal, a change in marketing margin will mean equal but opposite changes in retail and farm prices. In a situation where the slope of the demand curve is steeper or less elastic than that of the supply curve, the effect of price change at the consumer level will be greater than at the producer level. On the other hand, if the slope of the supply curve is steeper, that is less elastic, than that of the demand curve; the effect of price change at the producer level will be larger than at the retail level. Generally, it is believed that most farm products are more price inelastic in supply than demand, in such cases the incidence of a given margin change would be greater at the farm level than at the retail level.



PD= Primary Demand PS= Primary Supply
DD= Derived Demand DS= Derived Supply
RP= Retail Price FP= Farm Price

Figure 9: Effect of changes in derived demand and supply on marketing margin

4.0 Self Assessment Exercise

1. What are the major factors that cause variations in the size of the marketing margi

agricultural products?

2. Show graphically how marketing margin can be determined.

5.0 Conclusion

In this unit you have learnt about determination of marketing margin, what brings variability in marketi what are the incidence of margin changes.

6.0 Summary

In this unit you have learnt that:

- Marketing margin refers to the difference in prices paid for a commodity at differe marketing system.
- Marketing margin differs from one product to another because the marketing services neede product to product.

- Some products are highly perishable, consequently they require specialized handling, storag

processing.

- The magnitude of the total marketing margin varies from product to product depending o

perishability, bulkiness in relation to value, extreme seasonally of the product and institut

- The marketing margin can be computed using the following formula:

Marketing Margin $= \frac{\text{Selling price} - \text{Supply price}}{\text{Selling price}} \times 100$

Marketing margin is not static. It changes over time because it is determined by the intersection

demand and derived supply on the one hand and the derived demand and primary supply on the ot

Therefore any change that affects the demand and supply relations will also affect the marketing

7.0 Tutor – Marked Assignment

1. What is marketing margin?
2. What is the marketing margin if the selling price and supply price are ₦1200, ₦1000 respectively?

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pp. 119-139.

UNIT 2 MARKETING COSTS

1.0 Introduction

In the previous module you learnt that business firms or concerns behave according to the dictates o structure.

As you learnt in Unit 1 of this module, another important driving force apart from the market structure margin. While the previous unit dealt with marketing margin, this unit deals with the aspects of mark

2.0 Objectives

By the end of this unit you should be able to explain the various aspects of costs incurable in the per marketing functions.

3.0 Main Body

3.1 Marketing Costs Defined

Marketing costs are the actual expenses incurred in the performance of the marketing functions as a c from the farm to the ultimate consumers. It includes the cost of transportation and handling, marketin assembling, processing, distribution, cost of packaging, sales promotion and advertisement cost and o taxes, levies and excise duties. Marketing costs are often erroneously assumed to be synonymou margin but the true relationship is that marketing margin includes marketing costs plus the normal prof by the market intermediaries as the commodity passes through the marketing system. Marketing cos and variable costs.

The following are important components of the marketing costs.

a. Transfer costs
b. Processing costs
c. Storage costs
d. Sales promotion and advertisement costs,

3.2 Transfer Costs

These are the costs of moving products from producing to consuming areas. They consist of terminal .costs. Terminal costs are those costs related to transport of equipment and cost of functions perform loading and unloading sometimes called handling charges. These costs are incurred irrespective of therefore they are fixed costs. Transfer cost is therefore a function of terminal and transportation cost.

$$T=C + bR$$

Where T= transfer cost;

C= terminal cost

R = transportation cost

b = unknown coefficient

3.3 Processing costs

These are the expenses incurred in the creation of utility of transformation. Processing cost technology used in processing. For example in the traditional method of processing paddy rice, includes:

a. cost of firewood
b. depreciation on equipment
c. cost of labour
d. cost of drying
e. cost of milling

3.4 Storage Costs

These are costs incurred on the preservation of farm produce until the

time when they are needed. Most agricultural products are seasonal

and farmers' harvests therefore have to be stored over time for orderly

distribution at a later period.

In computing storage costs the following elements of costs are considered:

a. Depreciation cost of storage structures;
b. Interest on money invested in stored products;
c. Cost due to physical loss of weight through drying, insect and rodent attack and deterioration by decay through physiological changes;
d. Rent on storage structure;
e. Cost of storage chemicals such as insecticides;
f. Insurance cost if any;
g. Loss from poor consumer acceptance of the stored product; and
h. Loss resulting from once decline while the product is in storage.

3.5 Sales Promotion and Advertisement Costs

Sales promotion or advertisement cost is the cost incurred in the process of exhibiting the product acceptance and in conveying information to consumers on the availability of certain products. Ad include the cost of advertising the product over television, newspapers or radios, while sales promo the cost of providing free samples, making face to face contact between the sales men and consumers.

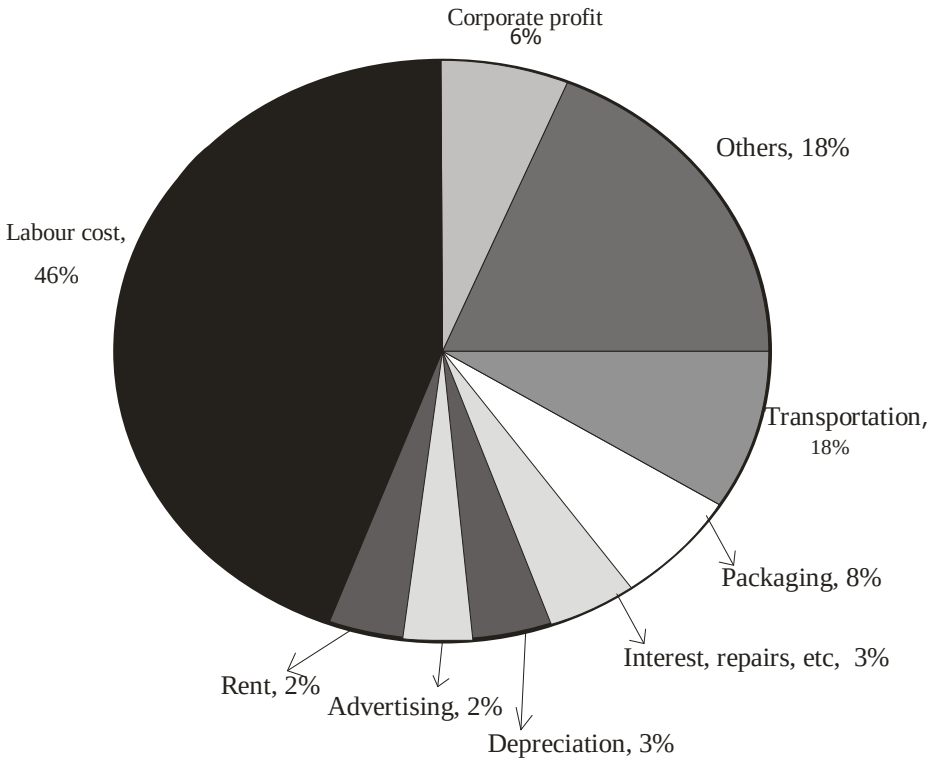

Figure 10: Components of the marketing bill
Source: Agricultural Outlook Ao - 49, 1979, USDA Economices, Statistics and Coorperative Service.

4.0 Self Assessment Exercise

Describe in your own words and give justification for the various components of storage costs.

5.0 Conclusion

In this unit you have learnt about the various components of costs incurable in the performance of functions namely, transfer costs, processing costs, storage costs, sales promotion and advertising cos

6.0 Summary

In this unit you have learnt that:

- Marketing costs are the actual expenses incurred in the performance of the marketing functions moves from the farm to the ultimate consumers.

- It includes the cost of transportation and handling, marketing charges, cost of assembling, proce

distribution, cost of packaging, sales promotion and advertisement cost and other costs such as taxes, duties.

- Marketing margin includes marketing costs plus the normal profit (or loss) earned by the mark

as the commodity passes through the marketing system.

- Marketing costs consist of fixed and variable costs.
- Important components of the marketing costs are transfer costs, processing costs, storage cos

promotion and advertisement costs.

- Transfer costs are the costs of moving products from producing to consuming areas, mac

charges normally incurred irrespective of distance covered, therefore they are fixed costs.

- Processing costs are expenses incurred in the creation of utility of transformation.
- Storage costs are incurred on the preservation of farm produce until the time when they are n
- Sales promotion or advertisement cost is the cost incurred in the process of exhibiting th

consumer acceptance and in conveying information to consumers on the availability of certain prod

7.0 Tutor – Marked Assignment

1. Define marketing costs
2. Mention and discuss components of marketing costs

8.0 References and Further Reading

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UNIT 3 MARKETING EFFICIENCY

1.0 Introduction

You have learnt in the previous unit about the marketing costs which are necessary to determi margins accruing to the various market participants. Another important aspect of the marketing need to know is the efficiency of the market. This is what this unit is all about.

2.0 Objectives

By the end of this unit you should be able to:

- define marketing efficiency
- estimate marketing efficiency
- identify the various type of efficiency.

3.0 Main Body

3.1 Market Efficiency Defined

Efficiency in the agricultural industry is the most frequently used measure of market perfor marketing efficiency is a common objective of farmers, food marketing firms, consumers and the Efficiency is an engineering terminology which is measured as a ratio of output to input. For exa efficiency of automobiles is expressed as kilometers (output) per litre of petrol used (input). Marketi be defined as the maximization of the ratio of output to input in marketing.

Marketing inputs include the resources used in providing marketing services such as labour, packa finance etc. On the other hand marketing output includes time, form, place and the possessio consumers derive from the marketing of the product. Thus marketing inputs are the costs of pro services where as marketing outputs are the benefits or satisfaction created, or the value added to th passes through the marketing system.

Efficiency ratios can be expressed in physical terms or in monetary terms. If monetary terms are us concept becomes a ratio of benefits to costs. For example in moving paddy rice through the marketi consumer buys it as milled rice, the paddy is transported, processed and possibly stored. The cost of functions makes up the input cost of marketing where as the value of the milled rice obtained fro paddy is the output of marketing.

Expressing marketing efficiency in both physical quantity and monetary terms we have:

Marketing efficiency (ME) $= \frac{\text{Output of milled rice}}{\text{Input of paddy}}$

or

$$\textbf{M.E.} = \frac{\text{Value of Output}}{\text{Value of Input}}$$

It is easier to estimate the input cost of marketing than the output of marketing. While the input co simply the sum of all the prices of resources used in the marketing process, the best measure of (consumer satisfaction) is the price consumers are willing to pay in the market for farm products with marketing utilities. For example, if consumers are willing to pay 5 kobo more per orange for orange fresh fruits, then it could be inferred that the processing of fresh orange into juice adds 5k of form utility,

Marketing efficiency could be achieved in any of the following ways:

a. output remains constant while input decreases
b. output increases while input remain constant
c. output increases more than increase in input
d. output decreases more slowly than decrease in input.

The higher the efficiency ratio the higher is the marketing efficiency. Any change in the marketing reduces the input cost of accomplishing a particular marketing service without reducing the consu certainly an improvement in marketing. On the other hand, any change in the marketing process w input cost of accomplishing a particular marketing service without reducing the consumer satisfacti improvement in marketing. On the other hand, any change in the marketing process which redu reduces consumer satisfaction with the end product may reduce marketing efficiency.

The formula for measuring marketing efficiency is as follows:

$$\text{Marketing Efficiency} = \frac{\text{Value Added by marketing}}{\text{Cost of marketing services}}$$

The answer obtained is referred to as the coefficient of marketing efficiency.

Let us consider the following example: In two markets A & B the total marketing costs incurred in the same product are ₦45,000.00 and ₦48, 000.00 respectively. The value added to each product through m 000.00. What is the coefficient or marketing efficiency and the most efficient market?

Solution:

In market A, the cost of marketing is ₦45, 000.00 but the value added through marketing is ₦10, 000

$$\text{Marketing Efficiency} = \frac{10{,}000}{45{,}000} \times 100 = 22\%$$

In market B, the total cost of marketing is ₦48, 000.00 but the value added through marketing is ₦10

$$\text{Marketing Efficiency} = \frac{10{,}000}{45{,}000} \times 100 = 20.8\%$$

From the calculations market A is more efficient than Market B.

3.2. Types of Marketing Efficiency

There are two types of marketing efficiency namely operational efficiency and pricing efficiency.

3.2.1 Operational Efficiency

Operational or technical efficiency measures the productivity of performing marketing service within t on the cost of providing marketing services. Output per man hour one often quoted productivity r operational efficiency. Sales per worker hour is calculated to monitor operating efficiency in farm supply s efficiency assumes that the essential nature of output of goods and services remain unchanged and fo the costs of inputs used in doing the jobs. For example, if a new method of storing grains which reduces la the grains could be stored more efficiently at a lower cost. A new method of crating tomatoes or e increase the quantity handled in a given space but also reduce damages during transportation. All thes improved operational efficiency.

3.2.2 Pricing Efficiency

Pricing efficiency assumes a physical input-output relationship that remains constant. It is concerned w prices reflect the costs of moving the outputs through the marketing system. The prices that consumers pay by the marketing system should adequately reflect marketing and production costs.

In a perfectly competitive economic environment, prices will adequately reflect all such costs. Pricing ef refers to the improvement of the operations of buying and selling and pricing aspect to reflect consume efficiency could be enhanced through grading of products, standardizing and quality control and also throu reliable market information.

On the other hand, if the market is dominated by a few firms that conspire to maintain high prices, th lead to pricing inefficiency. Other factors which could give rise to pricing inefficiency include information to consumers, (ii) presence of firms that dominate a market due to location or excellent p cases the prices paid by consumers may not adequately reflect the cost of production and marketing.

The first yardstick of ensuring consumer satisfaction in the marketing process is making available to t he will be prepared to pay for in the market place. In marketing, consumer satisfaction is met through having products available at the right place through storage by having products available at th through processing by having products available in the right form.

Three basic assumptions must be fulfilled for pricing efficiency to take place, they are:

a. The consumers must be provided with numerous alternatives from which they can choose.

b. The price must reflect the cost of providing the goods and services.

c. Free entry into and exit from the market, so that the consumers' freedom of choice is not restricted. Thus pricing efficiency is the result of the nature of competition and balance of economic power that exist in the marketing system. A monopoly market structure will certainly adversely affect the pricing efficiency of the market.

3.3 Estimation of Pricing Efficiency.

Marketing efficiency could be estimated by analyzing price behaviour over time and space. In a per market, price differential over time must be equal to the cost of storage. If the difference in price ove than the storage cost, it indicates pricing inefficiency. Over space, the law of market area sti spread between two markets that trade with one another should not exceed the cost of transfe between the locations. Where price differential over space is in excess of transfer cost it r inefficiency. In Figure 11 points A and B are two locations that are of equal distance from a central perfect market conditions the prices in the two markets A and B should be the same. However, in real assumptions of perfect competition are not easily met. Price differential over space and tin excess of transfer and storage costs particularly in the developing countries. The reasons com low market integration are:

a. Lack of perfect mobility due to transport cost
b. Existence of transport bottle-necks such as bad roads
c. Uncertainty on the duration of price difference between markets
d. Lack of information about market conditions
e. Lack of scientific grading of produce with the result that prices do not refer to equivalent grades in the two markets.

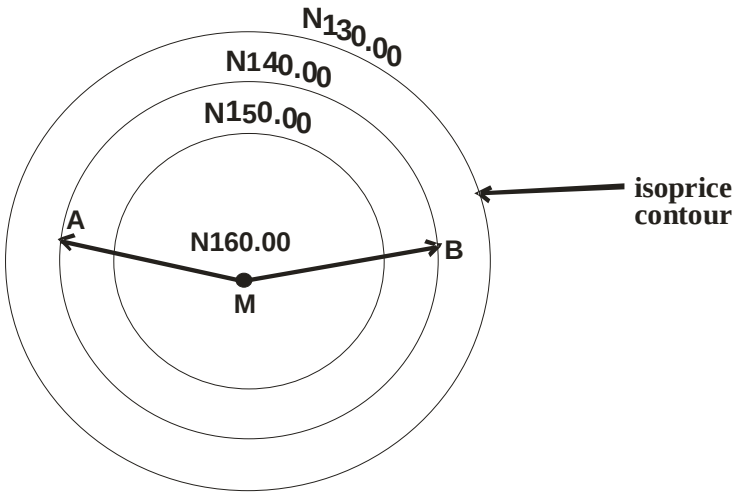

Figure 11: A geographic price surface (N/100 kg bag of produce).

4.0 Self Assessment Exercise

1. Discuss the reasons given for low market integration.

2. Explain the three basic assumptions that must be fulfilled for pricing efficiency to take place.

5.0 Conclusion

In this unit you have learnt how to define marketing efficiency, estimate marketing efficiency various type of efficiency.

6. Summary

In this unit you have learnt that:

- Efficiency in the agricultural industry is the most frequently used measure of market perfor
- Efficiency is an engineering terminology which is measured as a ratio of output to input.
- Marketing efficiency can be defined as the maximization of the ratio of output to input in mar
- In physical terms:

$$\text{Marketing Efficiency (ME)} = \frac{\text{Output of milled rice}}{\text{Input of paddy}} \times 100$$

In monetary terms :

$$\text{M.E.} = \frac{\text{Value of output}}{\text{Value of input}} \times 100$$

- The higher the efficiency ratio the higher is the marketing efficiency.
- $\text{Marketing Efficiency} = \frac{\text{Value Added by marketing}}{\text{Cost of marketing services}}$
- Operational or technical efficiency measures the productivity of performing marketing service w
- Pricing efficiency is concerned with how effectively prices reflect the costs of moving the ou marketing system. The prices that consumers pay for goods delivered by the marketing system should marketing and production costs.
- In estimating of Pricing Efficiency, the marketing efficiency could be estimated by analyzing over time and space. In a perfectly competitive market, price differential over time must be equal to the the difference in price over time is greater than the storage cost, it indicates pricing inefficiency.

7.0 Tutor – Marked assignment

1a) Define Marketing Efficiency b) Pricing Efficiency

2. Determine the marketing efficiency for two markets Z and Y which have incurred ₦10, 000 a costs respectively. The value added to the product in Z is ₦16, 000 while that of Y is ₦12, 000.

8.0 References and Further Reading

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MODULE 6 ROLE OF GOVERNMENT AND MARKETING INSTITUTIONS

UNIT 1 MARKETING BOARDS

1.0 Introduction

Having learnt about the structure, conduct and performance of the marketing system, it is clear t
some outside bodies to regulate the activities of the participants to ensure that the market perfo
adversely affect the society. This is why the role of government is important. Two institution
involved in the marketing of agricultural products in Nigeria are discussed in this module. The first
in this unit and the other in Unit 2 while regulations that government put in place are discussed i

2.0 Objectives

By the end of this unit you should be able to:

- explain the origin of marketing boards
- state the objectives of the marketing boards
- explain the operations of the marketing boards
- enumerate the performance of the marketing boards and
- enumerate the impact of the abolition of the marketing boards

3.0 Main Body

3.1The Marketing Boards

The Nigerian Marketing Boards originated directly from the West African Marketing Boards which
origin from the war time Produce Control Boards set up by the colonial administration. The Produc
were to organize the local purchase of the principal agricultural export crops for overseas sales in
African territories. The first Nigerian Marketing Boards were commodity boards and in this regard the
the first to be established which was later followed by the Palm Produce Board, the Groundnut Boa
Board.

Following the regionalization of the country in 1954 Regional Marketing Boards were created. By eight Regional Marketing Boards which included the Nigerian Produce Marketing Company (NPM was further reorganization of the Marketing Boards which gave rise to the creation of seven diff Boards. They were the Cotton, Grains, Cocoa, Palm Produce, Groundnut, Rubber, Root and Tub Some of these boards were responsible for the marketing of other crops in addition to the main crop example, the Cocoa Board was also in charge of coffee, the Cotton Board was in charge of kenaf wh Board was also in charge of soya bean.

3.2 Objectives of the Marketing Boards

The main objectives of the Marketing Boards were as follows:

a..To secure the most favorable arrangement for the purchase of produce and arrange for the export of

b.To promote the development and rehabilitation of producing areas,

c.To help maintain legally prescribed grades and standards of quality of export produce,

d..To allocate funds to the appropriate authorities by means of grants, loans, investments and en purpose of economic development and research. This function was discontinued in 1976.

e..To supply produce to local processors for processing in their plants, and

f..To stabilize producer prices by fixing legal minimum buying prices for a whole season at a time minimize price fluctuations within and between seasons.

3.3. Operations of the Board

The prices of the scheduled commodities were fixed by the Federal Government on the advice Committee on Producer Prices. The fixed price which would be announced well in advance of the farm reign throughout the season irrespective of the level of the world market price. The various board commodities through the Licensed Buying Agents (LBAs) who could be individuals, firms, or coope The boards paid commission to the LBAs as well as fixed transport differentials.

The Marketing Boards played notable roles in the economic development of Nigeria. The r following:

a. Stabilization of producer prices within and between seasons.
This was achieved by fixing producer prices well in advance of the production season and announc at the beginning of each season to reduce inter-seasonal price fluctuations.

b. They established and maintained an efficient organization for the purchase of produc appointment of Licensed Buying Agents (LBAs) who undertook the handling of produce from the poi until it was delivered to the boards.

c. They contributed immensely to the improvement in quality of the export produce by ma prescribed grades and standards. All export produce purchased by the boards were graded before the from the farmers.

d. The Marketing Boards helped in the genetic improvement of the various crops they h funding of research activities on those crops.

e. The various regional and federal governments used the proceeds from Marketing surpluses to finance education, health and infrastructural development.

3.4 The Performance of the Marketing Boards

The performance of the Marketing Boards are examined on the basis of the accumulation of tradi producer prices, operational expenses, quality control, crop improvement and internal sale to proce showed that the boards were successful in some aspects while not so successful in others.

1. Accumulation of trading surpluses

The Marketing Boards accumulated a lot of trading surpluses by paying farmers prices less than wh world market. Thus by 1954 the trading surplus which amounted to £120 million was shared am regions in proportion to their contribution. This trading surplus was, of course, to the detriment of continued to receive lower prices than the prices that were tenable in the world market. The p stabilization which required that sometimes prices should be lower and sometimes higher than wo was negated.

2. Low Producer Prices

The Commodity Marketing Boards (CMBs) adopted a policy of fixing producer prices that were lowe world market prices of the various commodities. These prices which were fixed in advance of what prices would be were consistently lower than what could be considered usual estimation in "futur instead of using the low pricing policy to stabilize prices, it was more useful for generating revent Regional Governments at the expense of the producers. All these served as disincentive to increa cash crops such as cocoa, cotton and rubber

3. Excessive Operational Expenses

The Marketing Boards incurred a lot of expenses in the performance of their functions. Their LBAs and transport allowances Other expenses included shipping and handling charges paid to the Nigeria agency charged for overseas marketing, and paid to the Nigerian Produce Marketing Company op including insurance and administrative expenses. The operational expenses were usually toe larg Usually this code provided an avenue for trading surpluses to disappear into wrong hands. The exc expenses vividly attested to the inefficiency of government operated marketing agencies.

4. Quality Control

This is a function which the boards performed very well. The boards through the Produce Ins introduced quality restrictions and standards or grades for acceptance and or rejection of produce. T so well performed that by the end of 1966/67 cocoa season, 99.9% of cocoa produced in Nigeria quality. The boards paid premium prices for high quality produce. The grade differentials thus stim to obtain high grades through better processing and handling of their produce.

5. Crop Improvement

Some of the boards like the Cotton Board helped in the improvement of the various crops under th making funds available for research work on those crops. Some boards like the Eastern Nigerian funded the establishment of agricultural faculties in some universities while some offered scholarsl agriculture and related disciplines. Some of the boards also engaged in the multiplication of improved seeds a to farmers.

6. Internal Sale to Processors

Prior to 1973, local processors were forced to buy their agro-raw materials from the boa charged processors world market prices whereas they paid less than the world market prices to price thus paid by local processors for their raw materials were high. The CMBs which sold only h products to the local processors found no market for the so-called sub graded produce which wasted. The sub graded produce could have been processed locally while exporting the good gra monopoly power of internal supply of agro-raw materials forced the Western State Government commence on the production of their own cotton which they could not produce as efficientl in the Northern States. This monopoly of supply of industrial raw materials was highly cri therefore abolished in 1973.

3.5 Impact of the Abolition of the Marketing Boards in Nigeria.

As a result of the inefficiencies in the commodity system as enumerated above and also following structu Nigerian economy in the mid-eighties, the marketing board structure was abolished by the Federal Govern 1986. This abolition posed a lot of problems for the farmers in the disposal of farm produce during 19 neither the farmers nor the market intermediaries were ready for the change. However, with time both th marketing agencies adjusted to the free market forces ushered in by the scraping of the Commodity Marketing

At present it would appear that the abolition of the commodity boards has favored the producers of cash cr cotton and rubber as the degree of competition in the marketing system has increased leading to higher pr example, the highest price fixed by the defunct Cotton Board for seed cotton was ₦850.00 per ton for the 198 in 1989 the average price of a tonne of seed cotton was ₦3, 000.00. Cocoa farmers were also reported to high prices due to the fact that they could take advantage of increased demand offered by the expor with the devaluation of the naira.

To the food grains farmers the situation was that of glut in 1987 with the attendant very low producer following the ban placed on the importation of grains such as wheat, rice, and maize, the demand for gr and industrial raw materials increased significantly. This led to very high producer prices which season to another This seasonal price variation has encouraged the activities of speculative middle buy the grains from the farmers at low prices immediately after harvest and resell them to the cons including the farmers) at very high prices during period of scarcity.

The abolition of the Commodity Marketing Boards had created a vacuum for the strategic grains re which was hitherto performed by the Grains Board. Thus when the prices of food grains rose to a 1989, the Federal Government ordered the state governments to release the grains they had in storag with a view of bringing down the retail price. Only very few states were able to comply simply becau no agency or institution responsible for strategic grains reserve purposes.

The cash crop market also started to face some problems. With the low demand for cocoa beans in t farmers in 1989 received poor prices for their produce. Many were unable to settle the cost of proc chemicals which they had taken on credit in anticipation of the type of a good market that prevailed in 1

The abolition of the marketing boards had adversely affected the supply of high quality cotton seed fo the responsibility of the defunct Cotton Board to supply quality seed to farmers for planting, but wit the board and the emergence of private profit motivated cotton merchants, farmers can no longer ob seeds for planting. This had remained a very serious problem since the abolition of the marketing bo that more than fifty percent of cotton farmers in the cotton producing states in Nigeria were not able planting in the 1989/90 and 1990/91 growing seasons. This problem of seed is unique to cotton becaus joint product consisting of seed and lint, which are separated through the process of ginning. A far seed cotton looses both the seed and the lint and relies on ginneries for a new supply of cotton see following year.

Most of the cotton merchants are interested m short-run profit. They therefore quickly sell off most of oil millers for crushing into vegetable oil instead of preserving them for planting purposes thus dep seeds for the following year.

4.0 Self Assessment Exercise

Assess the performance of Nigerian Marketing Boards. Give arguments for and against the boards in 1986.

5.0 Conclusion

In this unit you have learnt about the origin of marketing boards, their objectives, their operations, th and the impact of their abolition.

6.0 Summary

In this unit you have learnt that:

- The Nigerian Marketing Boards originated directly from the West African Marketing Boards w their origin from the war time Produce Control Boards set up by the colonial administration.
- The first Nigerian Marketing Boards were commodity boards, first among them was the C followed by the Palm Produce Board, the Groundnut Board and the Cotton Board.
- The main objectives of the Marketing Boards were:
  - ✓ to secure the most favorable arrangement for purchasing of produce and exporting the surplus,
  - ✓ to promote the development and rehabilitation of producing areas,
  - ✓ to help maintain legally prescribed grades and standards of quality of export produce,
  - ✓ to allocate funds for the purpose of economic development and research,
  - ✓ to supply produce to local processors for processing in their plants,
  - ✓ to stabilize producer prices by fixing legal minimum buying prices for a whole season at a time
  - ✓ to minimize price fluctuations within and between seasons.
- The Marketing Boards played notable roles in the economic development of Nigeria in:
  - ✓ stabilization of producer prices
  - ✓ establishing and maintaining an efficient organization for purchase of produce
  - ✓ contributing to the improvement in quality of the export produce
  - ✓ helping in the genetic improvement of the various crops
  - ✓ using proceeds of surpluses to finance education, health and infrastructural development.
- The boards were successful in some aspects while not so successful in others.
- As a result of the inefficiencies in the commodity system the marketing board structure was abolished by the Federal Government of Nigeria in 1986.

- This abolition posed a lot of problems for the farmers in the disposal of farm produce during 1987 season.

7.0 Tutor- Marked Assignment

1. a. What were the Nigerian Marketing Boards?

b. For what purposes were they established?

2. Marketing Boards in Nigeria were supposed to stabilize producer prices for agricu To what extent were
they able to achieve this objective?

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UNIT 2 COOPERATIVE ORGANIZATIONS

1.0 Introduction

In the previous unit, you learnt about marketing boards through which government used to interven of the marketing system. In this unit you will learn about a second organization, the cooperatives whi about regulations that government put in place in Unit 3.

2.0 Objectives

In this unit you will leant about the:

- cooperatives Defined
- origin of cooperatives
- characteristics of cooperative movement
- types of cooperatives
- potential benefits of cooperatives
- organization cooperative societies and
- problems of cooperatives in Nigeria.

3.0 Main Body

3.1 Cooperatives Defined

Various authors have defined cooperatives differently according to their background. Some view
business voluntarily owned and controlled by member patrons and operated by them on non-profit b
business usually evolves out of the felt needs of members who want to solve their common prob
their limited resources together for example in marketing their farm produce or getting supplies of farm

Cooperatives, to some other authors like H.E. Babcock, an eastern cooperative leader, is a legal, p
which a group of self-selected, selfish capitalists seek to improve their individual economic positio
society.

No matter how one looks at the definitions given above, two things are common (i) A coope
institutionalized device which permits group action that can compete within the frame-work o
business organization; (ii) Cooperatives are voluntarily organized to serve and benefit those who
them

3.2 Origin of Cooperative Business

The concept of cooperative was born out of human suffering, degradation and exploitation. Mo
movement began in England in 1844 in the days of the Industrial Revolution when factory worke
lived in great misery and abject poverty. Twenty-eight poverty stricken weavers in Rochadale met and
ways of improving their conditions. The result was the formation of a cooperative society which wa
Equitable Society of the Rochadale Pioneers". Borrowing a leaf, other industrial workers organize
similar bodies to give them a voice to be reckoned with. The idea of cooperatives spread into other industri

3.3 Characteristics of Cooperative Movement

There are generally seven principles which are unique to cooperative organizations. They are:

i. Open Membership
ii. Democratic control
iii. Limited interest on capital
iv. Patronage dividend
v. Cash transactions only

vi. Religious or political neutrality
vii. Constant education of members.

These principles form the spiritual bond uniting the cooperators the world over and serve to disting from other forms of business organizations.

1. **Open Membership**: This principle implies that cooperative business should be ope are interested. Usually there is no upper limit to the number of members that any cooperative soci

2. **Democratic Control**: This principle implies the concept of one-man one vote. It underlin quality of cooperation, namely that a free association of persons as human beings on the basis of ec keep the control of cooperative business in the hands of the patrons rather than the owners of the c based on principle of one man one vote contrary to the other private business concerns where voti of one share one vote.

3, Limited returns or interest on capital: The return on capital in most cooperatives is lim percentage which is fixed and determined usually between 5 and 8 %. Thus capital is something hired for the purpose of building facilities to serve member's needs and not investment.

The idea of a fixed low rate of interest is to discourage the profit hunger which governs the s to eliminate gambling and speculation from the cooperative business. It is to foster the idea th is to serve human needs not capital.

4. **Patronage Dividends**: This is the principle that involves deciding what is to be done with a surplus. Whereas a limited liability company would distribute its net surplus among in proportion to their share holding, In a cooperative society, this is not the case. The basis fo available surplus in a cooperative society. is not capital but a member's patronage of the soc amount of business in the form of work, loans, services, sales and purchases, depending cooperative that the member provides. For example in a credit and thrift society, patronage based on the amount of money borrowed by a member from the society in a year. In this case th not necessarily considered as a profit as such but as representing the amount by which *a* member was over charg bought goods from the society. In the case of marketing cooperatives it is the am he was under-paid each time he sold goods to the society and for a credit society it represen interest he has over-paid each time he borrowed money from the society. Thus a cooperative or not necessarily aim at accumulating profit but to provide services to members at cost.

5. **Cash Transactions Only**: Article 21 of the statutes of the Rochadale Pioneers strict cooperative transactions would only be done on cash basis. This meant that no credit was allowe probably due to the fact that early cooperative societies began with little capital and could neither afford charged on loan. Even today, experience shows that credit business increases costs, complicates a cause the premature death of a. society. However, business transactions of the present day require that cooperative societies modify cooperative principles to allow for credit purchases for certain commodities especially durable and such as television and radio sets. This is other forms of business organizations allow hire purchase.

6. Religious and Political Neutrality: Religious and political neutrality imply that membership society should be open to all irrespective of religious, political and ethnic differences demonstrates the role of cooperatives as a unifying factor in the society.

7. Constant Education of Members: Members of cooperative societies need to be ed
They should be trained on simple principles of Economics and Business Management. They should
Accounting and Auditing principles so that they can run the affairs of their organization effectiv
professional managers are employed to run the affairs of the cooperative organization, the mem
understand what their employees are doing. Cooperative education also helps to enlighten
advantages of cooperation.

3.4 Types of Cooperatives

There are many types of cooperative societies existing in different countries but the most popu
Nigeria are discussed below.

1. Marketing Cooperatives:

This type of cooperative performs the physical operations of marketing for their members with the
rendering marketing services to them at the least cost possible and getting the highest possible price for

2. Producer Cooperatives

This type of cooperative is made up of the producers of the goods. For example, farmers who pro
themselves into what is called Cocoa Farmers' Cooperatives. These types of cooperatives are
procuring inputs for their members at reasonable costs and in good time. For example, the farmers
to buy fertilizers and agro- chemicals for the members from approved government sources and they
their members at the official prices.

3. Service Cooperatives

This type of cooperative association offers relevant services like credit and thrift, irrigation and transportation to their members at cost.

4. Processing Cooperatives

This type of cooperative is organized for the processing of farm products such as butter, cheese, r
packaging of the products. It offers members the opportunity to process their products. The soci
buy products from other farmers process them and sell the processed products to consumers and c

5. Consumer Cooperative

This is perhaps the most popular type of cooperative society in Nigeria. The main aim of t
consumer goods to members at reasonable prices. This type of society played prominent role
early eighties when many types of consumer goods were in short supply and the prices in the op
exorbitant.

6. Multipurpose Cooperatives

This is another type of cooperative society that is becoming very common in Nigeria in recent
of cooperative combines many functions for example supply of inputs to members, provision o
and sales of consumer goods.

3.5 Potential benefits of Cooperatives to Farmers

1. Increased Profit

Farmers through cooperatives are able to increase their profit. This is achieved through buyin
quantities and at a lower price and. secondly by getting greater net returns from the sale of their
marketing cooperatives, the farmers are able to eliminate some of the middlemen thus enjoying hi
consumer's expenditure.

2. Marketing Services at Cost

Through the functions of the different types of cooperatives, farmers are able to divert profit from t
and middlemen to themselves as patrons thereby enjoying the services at cost.

3. Reduced Cost

The greatest opportunity for cooperatives does not lie in the area of profit but its ability to functio
Cooperatives like any other form of business organization incurs costs such as cost of labour, rent
bill, and interest on borrowed capital. But cooperative organizations are able to function at a low
other business counterparts as a result of the following reasons:

I. The cost of advertising, sales promotion and other forms of soliciting should be lower tha
business. Since the main aim of cooperatives is to solve the felt needs of members, there is no need
on sales promotion and advertisement since the members are aware of the availability of such goods.

ii. Cooperatives are also in a position to reduce cost by handling products in large quantities
competitors, thus they enjoy economies of scale in production, processing and marketing.

iii The concept of patronage dividend which is unique to cooperatives encourages cooperators to pa
business. As they do this the volume traded increases and the unit cost of marketing falls.

iv increase political strength: Farmers through cooperatives are able to build up political stre
them in getting timely supply of farm inputs and can also pressurize the government to subsidize
inputs.

3.6, Organizational Structure of Cooperative Society

The organization structure of cooperative societies in Nigeria follows the general three –tier py
cooperative organization throughout the world. Initially, individuals recognize common and desira
them, so they pool their resources together towards meeting such needs. They form primary societ
District or Local Government level. For example Rice Farmers Cooperatives may pool their reso

form a secondary Rice Farmers Union to enable them acquire rice milling plant for the use of all the involved.

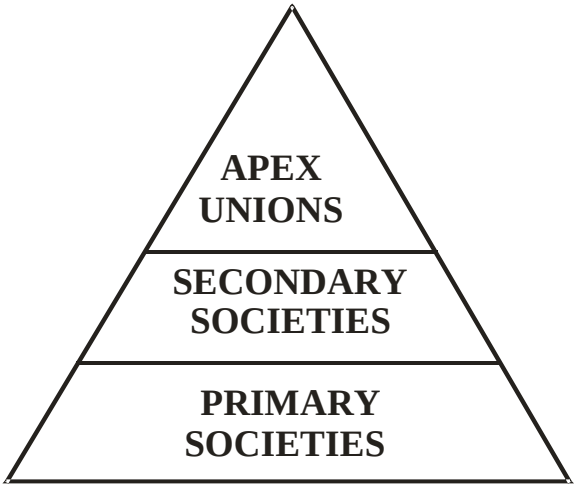

Figure 12: Structural Pattern of Coorperatives in Nigeria.

In the same manner, secondary societies on the same line of activity join together to form apex asso which they obtain some ancillary services necessary for their operations, such as publicity, price contact with the government and outside organizations. This upper tier of the pyramid operates Federal levels. The various states owned cooperative banks are apex cooperative organizations.

3.7 Problems of Cooperatives in Nigeria

Since the existence of formal cooperative societies in Nigeria, a number of problems have been ide important of such problems are discussed below.

1. Illiteracy and ignorance of members

Most members of cooperative societies in Nigeria are illiterates and as such are quite ignorant of the cooperation.

2. Disloyalty among officials and employees of the societies

Some of the officials of the cooperative societies especially in the rural areas are corrupt, taking illiteracy of members to cheat them. Sometimes members are not informed of the arrival of farm inp consumer items and sometimes society funds are diverted to private uses.

3. Low membership

This is a serious problem confronting most primary societies. The idea of cooperative is to reap ben together of individuals limited resources. This idea cannot be realized if the membership is low.

4. Poor Capital Base

Most cooperative societies are not viable in business and cannot effectively compete with organizations due to limited capital.

5. High rate of loan default

The rate of default by cooperative members in repaying their loans is high in most cases. This has the societies unviable. The society members sometimes regard loans obtained from cooperative own share of the national cake thus they do not pay the loans and this invariably has led to the premat societies.

4.0 Self Assessment Exercise

1. Enumerate the problems usually encountered by cooperative societies.

2. What are the different types of cooperative societies?

5.0 Conclusion

In this unit you have learnt the definition of cooperatives, their origin, characteristics, types, p organization and problems.

5.0 Summary

In this unit you have learnt that:

- Cooperatives are defined as some business voluntarily owned and controlled by membe operated by them on non-profit basis.
- Cooperative business usually evolves out of the felt needs of members who want to s common problems by pooling their limited resources together.
- The concept of cooperative was born out of human suffering, degradation and exp England in 1844.
- The seven principles which are unique to cooperative organization are:

✓ Open Membership
✓ Democratic control
✓ Limited interest on capital
✓ Patronage dividend
✓ Cash transactions only
✓ Religious or political neutrality
✓ Constant education of members

- The different types of cooperative societies found in Nigeria are the Marketing Cooperatives Cooperatives, Service Cooperatives, Processing Cooperatives, Consumer Cooperative and M Cooperatives.
- The potential benefits of cooperatives include increased profit, marketing services at cost and r

7.0 Tutor- Marked Assignment

1. Why are small scale farmers always being urged to form cooperative societies?

2. a. What is a cooperative movement?

b. Discuss the factors which distinguish cooperatives from the other forms of business orga

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UNIT 3 GOVERNMENT REGULATIONS, SUBSIDIES. And CREDIT SCHEMES

1.0 Introduction

In the previous unit but one, you learnt about marketing boards through which government used t operations of the marketing system. In the immediate previous unit you also learnt about a second cooperatives. In this unit you will learn about regulations that government put in place, subs facilities for the farmers.

2.0 Objectives

By the end of this unit you would be able to:

- explain government regulations
- discuss about subsidies
- describe about credit schemes

3.0 Main Body

3.1 Government Regulations

Regulations can be defined as an intervention by the government in the agricultural sector to ensu
sustainability. There are many who believe that government's relationship with agricultural market
of laws dealing directly with agricultural products and their handling. This is more or less a narr
large, agricultural marketing appears to cover a much broader perspective and those that are
discipline will therefore have to come to grips with some of the more fundamental issues. Most
attention is directed to:

(a) Maintaining and policing competition or preventing monopoly:

(b) Facilitate trade and providing services such as the maintenance of uniformity of standards;

(c) Formulating regulations to protect the consumers.

This law is intended to prevent shipments of adulterated or misbranded foods, drugs and cosmetic
more or less the responsibility of the appropriate Federal agencies such as the Nigerian Standards
NAFDAC.

3.2 Subsidies in Agriculture

A subsidy is an aid to farmers to keep down the price of a commodity. One form of subsidy is the re
duties on some farm inputs and implements. This can also be done through price support the govern
during periods of bumper harvest. The government through the appropriate agencies normally buys l
grains for its strategic reserves and this helps to guarantee farmers stable prices.

3.3 Sources of Credit for Farmers

The major sources of credit can be classified into institutional or formal and non-institutional source

3.3.1. Non-Institutional

The non-institutional or informal sources are those which do not have any uniformity in their lendin
interest rate or their collateral requirement.
Loan from such sources are usually made directly to the borrower by the lender and are prevalen
individuals are quite familiar with and share confidence in one another. In other words, the l
borrowing farmer and reasonably vouch-safe for his (borrower's) integrity. The relative ease of ob
devoid of administrative delays, non-insistence by the lender on security or collateral from t
flexibility built into repayment programmes has made the non-institutional sources very popular a
farmers. Non-institutional sources however have such limitations as smallness of loan, high interest
Notable examples under this source include

i. The "Esusu"

The "Esusu" is a fund to which a group of individuals sharing common characteristic make a contr amount of money, handed to one person. Each member is able to make use of the money in turn, n for a member in dire need of a loan or advance. These are granted without interest payment.

ii. "Ajo"

In the case of "Ajo" individuals contribute fixed amount of money on a daily basis. The "ajo" coll remind contributors of their daily obligation, and safe keep the contributed sum. At the end of contributors receive their total savings less one day's contribution, the latter being the collector's fee

iii. Money Lenders

These people usually make their money outside the rural community but later settle down in villag farmers at exorbitant interest rates. Some farmers who pledge their lands, crops and buildings have their inability to pay the high interest rates charged on the principal when due.

iv. Friends and Relations

This is part of cultural heritage whereby the prosperous help their less fortunate relatives and frien some cases, the loan is not collected back.

3.3.2 Institutional Sources

These are sources of capital available to agribusinesses from outside the firm but from institution institutional sources are those recognized institutions which follow standardized procedures of lend regulated interest but normally require some collateral. The loans from these sources are always larg those obtained from non-institutional sources. These sources could be commercial banks, co government organizations, etc.

i. The Agricultural Credit Guarantee Scheme Fund (ACGSF)

In order to encourage banks to meet the target set for them in the monetary policy circular, the CBN Government established the ACGSF in 1977. The enabling legislation provided for a fund of ₦100 million extended to agriculture by the banks are guaranteed up to 75%. The funds objectives is to provide addit banks which, because of the high risk in agriculture and the attendant loan defaults, would preferred other economic activities for lending.

This resulted in a sharp increase in agricultural lending e.g. in 1978, 341 applications were receive and by 1988 a total number of 24,538 loan applications were guaranteed.

The Agricultural Credit Guarantee Scheme Fund is a scheme managed by the Central Bank of N provides guarantee cover to banks who give loans to the agricultural sector of the economy. Thi banks to provide more funding to the farmers. The scheme had an authorized share capital of ₦3 bil the Federal Government (60%) and the CBN (40%).

The whole process was simplified whereby what any potential beneficiary needed do was to go t bank or Central Bank branch office in Nigeria and make inquiries there. It was exclusively for fa expected to provide collateral if the loan amount was above ₦20. 000.00. The collateral should be in a in form of 25% cash security of the intended loan amount in the form of savings. Once the bank h with all the relevant information and collateral, where applicable, the way became clear for the farm the agricultural credit.

The process for loan approval and collection involved the farmer that was seeking loan to choose and with a bank operating the Agricultural Credit Guarantee Scheme. Next, a deposit of 25% of the loan would be paid into the account, and all the required information provided. Finally, the applicant cou loan on a loan application form, while his bank would also need to arrange an insurance cover for Nigerian Agricultural Insurance.

ii. Commercial banks

A commercial bank is a type of financial intermediary. It raises funds by collecting deposits from b and consumers via checkable deposits, savings deposits, and time deposits. It makes loans available consumers. Commercial banks are run to make profit and they are therefore concerned with receiv lending to businesses. They make long term, intermediate and short term loans, lines of credit a Examples of commercial banks in Nigeria include: United Bank of Africa (UBA) Plc, First Bank o Bank of Nig. plc.

iii. Cooperative banks

A cooperative bank is a cooperative society carrying on the business of banking. It offers grea members to savings and borrowing facilities and at relatively cheaper costs than traditional co Cooperative banks are owned by their cooperative patrons such as weavers, crop farmers, carpe commercial banks which are profit oriented, cooperative banks are service oriented, they aim at p but not at the expense of their members. Cooperative banks operate on a smaller scale than commerc usually located in rural areas. The relationship between cooperative banks and other customer contractual relationship. They add a personal touch to their relationship with customers. The s cooperative banks are usually rural people themselves; hence they do not face the many acc communication problems staff of commercial banks face.

iv. Community banks

These are self sustaining financial institutions which are owned and managed by a commun communities for the purpose of providing credit, receiving deposits and rendering banking an services to their members largely on a basis of self recognition and credit worthiness. Community were established to mobilize rural savings, promote rural development and stimulate productive acti establishment of micro-enterprises, enhancing rural incomes and alleviating poverty in rural areas.

v. Insurance Companies

Like other financial institutions, insurance companies look for businesses to invest funds they hav policy holders. Most insurance companies prefer intermediate and long term loans on fixed assets s and equipment and mortgages for collateral. If the farmer has a policy with the insurance compa will usually grant the farmer loan amounts that are the cash value of the policy and at very attract Examples of insurance companies include the Nigerian Agricultural Insurance Corporation (NAI General Insurance Company Ltd (IGI), Leadway Assurance, etc.

4.0 Self Assessment Exercise

1. Is a scheme like ACGSF necessary? Why? Why not?

5.0 Conclusion

In this unit you have learnt about government regulations, subsidies, credit and insurance schemes put in plac assist producers and marketers.

6.0 Summary

Government regulations are directed to:

- Maintaining and policing competition or preventing monopoly:
- Facilitate trade and providing services such as the maintenance of uniformity of standards;
- Formulating regulations to protect the consumers.
- This law is intended to prevent shipments of adulterated or misbranded foods, drugs and cosmetics.
- In Nigeria it is the responsibility of the appropriate Federal agencies such as the Nigerian Standards Organization and NAFDAC.
- A subsidy is an aid to farmers to keep down the price of a commodity.
- One form of subsidy is the reduction of import duties on some farm inputs and implements.
- Non-formal sources of credit include esusu, ajo, money lenders, friends and relations
- Formal or institutional sources are the Agricultural Guaranteed Credit Scheme, the commercial banks, cooperative banks, and community banks.
- Insurance companies look for businesses to invest funds they have collected from policy holders.

7.0Tutor- Marked Assignment

1. Discuss four informal sources of finance.
2. Discuss the following four institutional sources of finance:

i. Cooperative banks

ii. Commercial banks

iii. Community banks

iv. ACGSF

v. Insurance companies

8.0 References and Further Reading

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Unit 4 AN OVERVIEW OF THE NIGERIAN AGRICULTURAL INSURANCE CORPORATION (NAIC)

1.0 Introduction

In the previous unit you learnt about government regulations, subsidies and credit schemes put in place by g
producers and marketers. In this unit you will learn about the agricultural insurance scheme government put in
adverse effects of production and distribution of agricultural products in the country.

2.0 Objectives

By the end of this unit you would be able to:

- explain what NAIC is all about
- explain the functions and operations of NAIC
- state the objectives of NAIC
- describe the beneficiaries of NAIC
- enumerate the perils covered by NAIC
- explain the benefits of NAIC and
- state the problems faced by NAIC.

3.0 Main Body

3.1 Nigerian Agricultural Insurance Corporation (NAIC)

Nigerian Agricultural Insurance Corporation (NAIC) is the agency that operates the Nigerian Agric Scheme (NAIS).

Risks in agricultural undertakings are more widely spread and far-reaching than in most other en because they go beyond all the well-known and researched entrepreneurial hazards and uncerta business world. Such hazards include the vagaries of nature, inclement weather conditions, pests a with flood and fire outbreaks. All of these eventualities impact very seriously on the success agricultural enterprise. Therefore, any nation with a clear vision for boosting its agricultural product the food needs of its populace and industries must of necessity put in place mechanisms that would r and uncertainties to a bearable minimum. There is need therefore, for a mechanism that functions the farmers in business cannot be over-emphasized. This therefore necessitates the need for an agric Nigeria.

NAIC presently is wholly owned by the Government and is the sole underwriter of agricultural ris operating the NAIS, the premium due is subsidized to the tune of 50%. This means that the farme the Federal Government and the State Government (where the project is located) pay 37.5% and 12.

3.2 The Main Objectives of the Scheme

The broad objective of the NAIS is to protect the Nigerian farmer from the effects of natural hazar measures which shall ensure a prompt payment of appropriate indemnity (compensation) suffic farmer in business after suffering a loss. The scheme was specially designed to:

Promote agricultural production since it would enhance greater confidence in adopting new and i practices and at the same time bring about greater investments in the agricultural sector of the N thereby increasing the total agricultural production;

Provide financial support to farmers in the event of losses arising from natural disasters;

Increase the flow of agricultural credit from leading institutions to the farmers;

Minimize or eliminate the need for emergency assistance provided by Government during perio disasters.

3.3 Functions of Nigerian Agricultural Insurance Corporation (NAIC)

With the aim of assisting the farmers in cases of unforeseen adverse farming conditio Agricultural Insurance Company Limited (NAIC) was established with headquarters in A beginning the insurance cover offered by NAIC was limited to only rice, maize, cattle and po conceived to cut across wider ecological zones in the country.

According to Decree No. 37 of 1993 enabling the Corporation, its functions included the following:

i. To implement, manage and administer the Agricultural Insurance Scheme established by sect
No. 37 of 1993

ii. To subsidize the premiums chargeable on selected crops and livestock policies from the gran
Federal, States Governments and the Federal Capital Territory, Abuja.

iii.To encourage institutional lenders to lend more for agricultural production having regard to the a
their loans provided by the Corporation.

iv.To carry on insurance business on normal commercial basis and without subsides on premiu
building, machineries, equipment and other items which form part of the total investment on farms
this aspect of its operations through well-established channels with reputable re-insurance companie

v. To operate other types of insurance business as may be permitted by the Commission of Insuran
premiums.

3.4 Beneficiaries of the Scheme

The scheme was established to provide security for all categories of farmers, namely; sm
large scale holder, either in groups or as individuals.

The scheme is especially compulsory for farmers that benefit from any form of agricultu
under the scheme. Most of these transactions are made by or through the lending institutions.
provides cover for the self-financed farmers, government sponsored or assisted projects, etc in w
recognized facilities may not be involved.

3.5 Perils covered by N.A.I.C

Since not all perils to which a farmer is exposed are insurable, the perils to be covered are re
pertaining to elemental and physical risks to production only. There is no cover for economic an
resulting from price fluctuations and loss of profit.

The exact perils covered in respect of crops depend on crop type, area, exposure and ease of contr
peril. The major perils covered for crops include: fire, lightening, wind storm, flood, drought, pest,
animals.

For livestock, the perils covered also depend on animal type, epidemic and endemic diseases, etc.
the various preventive measures available is also an important factor for consideration. The major
livestock include death or injuries due to: fire, lightening, wind storm, flood and diseases.

Losses caused by negligence or by willful damage are not covered. Also, the insured under NAIC w
to meet the conditions for good husbandry practices.

3.6 Benefits of the Scheme

The scheme is immensely beneficial to the farmers and hence the nation as a whole in so m include:

i. Assurance of security to farmers

The insured farmer has an added advantage in his/her production efforts, knowing that should a lo will not be total as NAIC will indemnify him/her. This serves as an added impetus to his efforts.

ii. Adoption of technology

The farmer now armed with the added security advantage as mentioned in (a) above is now m positioned to follow time tested laid down guidelines that will improve his yields. Adoption of m approach which is a major requirement for insured farmers is therefore compulsorily carried ou leading to greater yields and improved farm incomes.

iii. Enjoyment of premium subsidy

There is also the incentive that only 50% of the premium is paid by the farmer on crops and livesto under subsidized category. The other half is paid on his behalf by the Federal and State Gover project is located. This is one of the attractive features of the scheme. More farmers are hereby en themselves of the Corporation's policies which is the veritable ship of financial stability through wh have been sailing to their shores of prosperity.

iv. **Facilities Easy Access to Credits Facilities**

The NAIC cover also enables easy access to greater credit facilities since the insurance cover can s security for loans. It works this way, if farmer X who has taken a loan of ₦5, 000.00 which was in succeeds in paying back the loan, he will be entitled to a bigger loan of say ₦10, 000.00 and above.

v. **Generation/Creation of Wealth**

The accessibility of greater credit facilities as mentioned in (d) would result in an increase in the size production, giving rise to increased income for the farmer, which in turn, will lead to higher farm e more wealth generation and general improvement in quality of life of the citizenry.

vi. **Provision of Extension Services**

Insured farmers benefit immensely from technical advisory services which are provided by staff of t the various areas of agriculture and risk management during monitoring visits to insured farm proj beneficiaries of the scheme. These extension services are provided free of charge. Furthermo involved are highly reliable and tested professionals in their fields of agriculture and seasoned insura

translates to the basic fact that the farmer can save his hard-earned money which he ordinarily wou consultants most of which may turn out to be fakes.

vii. **Assistance in Agricultural Loans Recovery**

Banks whose clients have been covered under the Nigerian Agricultural Insurance Scheme have co easy to recover loans disbursed thereby leading to more farmers enjoying credits facilities from such

3.7 Problems and Limitations of the Scheme

A number of problems and limitations have been identified to constrain the successful implementati in Nigeria. These are:

(a) Inadequate infrastructural and administrative facilities;

(b) Poor farming practices and differential level of farm
(c) Inadequate funding

(d) Shortage of trained manpower to operate the Scheme

(e) Ignorance of the farmers and the general public on the operations and merits of the Scheme; and

(f) Non-availability and unreliability of data;

(a) **Inadequate Infrastructure and Support Services**

Inadequacy of infrastructural facilities such as good roads and other efficient means of transportati power supply, etc could hamper the successful operation of the scheme. These facilities are ne facilitate prompt and speedy intimation of losses by the farmers, for assessment of losses indemnities. Federal and State Governments are expected to provide these facilities.

(b) **Poor Farming Practices and Differential Level of Farm Developments**

Poor farming practices and differential level of farm developments may cause variations betwee average farm yields. The adoption of homogeneous geographical area as the unit of insurance assum yields within each ecological zone. Different levels of development may cause serious deviation of a from the average. In the determination of indemnity for crops particularly under the third stage reliance is normally placed on the standard yield per hectare. Differential level of farm developme result in unintended over-indemnification.

(c)Inadequate Funding

Like most publicly owned corporations, adequate and timely funding of the Scheme is lack insurance is a very costly venture and as such arrangement for adequate funding should be made.

(d) Lack of Trained Personnel

The successful management of the Scheme requires the availability of personnel trained in agricult at the national, states, and 1oca1government levels as evaluators, supervisors, loss adjusters and sa an acute shortage of agricultural insurance specialists within the Nigerian insurance industry that technical aspect of agricultural insurance.

(e)Ignorance and Lack of Awareness of the Scheme by Farmers

The ignorance and lack of awareness by the majority of farmers of the need, practice and valu insurance constitute a problem to the practice of the Scheme.

(f) **Lack of Data**

A major problem that affects the implementation of the Scheme is the dearth of data on farm opera on crop yields and losses arising from natural hazards, as well as the occurrences and effects of the data are necessary for the computation of premiums and indemnities.

4.0 Self Assessment Exercise

Enumerate the limitations of NAIC in its operation in Nigeria. How do you think these limi addressed?

5.0 Conclusion

In this unit you have learnt about NAIC its functions and operations, the objectives of NAIC, the be covered, benefits and problems.

6.0 Summary

In this unit you have learnt that:

- NAIC is geared towards reducing the risks of agricultural businesses.
- Its broad objective is to offer protection to the farmer from the effects of natural disaste payment of appropriate compensation sufficient to keep the farmer in business after suffering a los
- NAIC was established to assist the farmers in cases of unforeseen adverse farming condi
- The benefits of NAIC includes

✓ Assurance of security to farmers
✓ Adoption of technology
✓ Enjoyment of premium subsidy
✓ Facilities Easy Access to Credits Facilities

- ✓ Generation/Creation of Wealth
- ✓ Provision of Extension Services
- ✓ Assistance in Agricultural Loans Recovery
- The problems and Limitations of the Scheme **a**re:
- ✓ Inadequate infrastructural and administrative facilities;
- ✓ Poor farming practices and differential level of farm developments;
- ✓ Inadequate funding
- ✓ Shortage of trained manpower to operate the Scheme
- ✓ Ignorance of the farmers and the general public on the operations and merits of the Scheme; a
- ✓ Non-availability and unreliability of data.

7.0 Tutor-Marked Assignment

i. Why do Nigerian farmers need agricultural insurance cover?

ii. What are the main objectives of NAIC?

8.0 References/Further Readings

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MODULE 7 COMMODITY MARKETING SYSTEMS

Unit 1 Concept and Elements of Commodity Marketing
Unit 2 Marketing of Food Grains and Seed Cotton
Unit3 Marketing of Livestock and livestock Products

UNIT 1 CONCEPT AND ELEMENTS OF COMMODITY MARKETING

1.0 Introduction

The term 'commodity' is commonly used in reference to basic agricultural products that are eithe form or have undergone only primary processing. Examples include cereals, coffee and cocoa beans

eggs, milk, fruits, vegetables, beef, cotton, yam, cassava and rubber, tomatoes onions etc. A relate
that the production methods, post-harvest treatments and/or primary processing to which they hav
have not imparted any distinguishing characteristic or attributes. Therefore, within a particular grade
with respect to a given variety, commodities coming from different suppliers, and even diffe
continents, are ready substitutes for one another. Agricultural commodities are also generic, undiffer
that compete with one another on the basis of price. Consequently, commodities contrast sharply wi
which have been given a trade mark or branded, in order to communicate their marketable difference

2.0 Objectives

By the end of this unit, you should be able to:

- understand the concept of commodity marketing
- discuss the elements of commodity marketing
- understand the stages in a commodity marketing system
- discuss the linkages between the different stages in a commodity marketing system
- appreciate the main products involved in commodity marketing

3.0 Main Body

3.1 Concept of Commodity Marketing

Commodity marketing is crucial to the success of the rural economy and is a key element in the de
sector. In developing countries, commodity marketing has been undermined by a variety of fac
dearth of social and physical infrastructure, such as inaccessible roads and markets; lack of proce
equipment which exacerbates post-harvest losses, etc. This development has increased the risks
commodity marketing, playing a major role n the pricing of primary commodities in developing c
countries also have policies relating to commodity marketing. Following national independence in m
Asian countries, state agencies became the conduits for major commodities.

They dictated prices and purchased commodities from farmers, often without recourse to market m
time, commodity prices offered farmers by state agencies were at variance with internationa
prompting farmers to cut down production, or abandon their activities altogether. Consequentl
commodities declined in many developing countries, undermining state revenue and impoverishin
livelihoods have been undermined.

However, in the early 1980s, many developing countries embraced economic reforms encapsulate
economic frameworks including Structural Adjustment Programmes (SAPs). With economic refo
owned commodity agencies were abolished in a development that liberalized the rural economy in
The advent of economic reforms permitted private entities and individuals to engage in commodity m
deregulated framework.
This development inspired competition, accompanied by favourable prices which encouraged fa
more. Thus, production of commodities escalated in many countries, allowing rural farmers
international market prices, which was denied them prior to the 1980s.

3.2 Elements of Commodity Marketing

A commodity marketing system encompasses all the participants in the production, processing and undifferentiated or unbranded farm product such as cereals. Participants include farm input su storage operators, processors, wholesalers and retailers, involved in the flow of commodities from in final consumer. The commodity marketing system also includes all the institutions and arrangemen coordinate the successive stages of a commodity flow, such as government parastatals, tr cooperatives, financial partners, transport groups and educational organizations related to the commo The commodity system framework includes the major linkages that hold the system together, such contractual coordination, vertical integration, joint ventures, tripartite marketing arrangement arrangements. The systems approach emphasizes the
interdependence and interrelatedness of all aspects of agribusiness, namely: from farm input suppl assembling, storage, processing, distribution and ultimate consumption of the product.

3.3 Stages in a commodity marketing system

The marketing systems differ widely according to the commodity, the systems of production, traditions of the producers and the level of development of both the particular country and the partic economy in the country concerned.
This being the case, the overview of the structure of the selected major commodities marketed whic broad and general. The major commodities whose marketing systems will be discussed herein livestock and meat, poultry and eggs, cotton, fruit and
vegetables, milk, tomatoes and onions. Table 3 identifies the main stages of agricultural marketing in many countries.

Table 3 : Stages in Agricultural Marketing

STAGE	EXAMPLES
Stage 1: Assembly	Commodity buyers specializing in specific agricultural products, including grain, cattle, beef, palm oil, cotton, poultry and eggs, milk.
Stage 2: Transportation	Independent transporters, transport companies, railways, airlines, etc.
Stage 3: Storage	Grain elevators, public refrigerated warehouses, controlled atmosphere warehouses, heated warehouses, freezer warehouses.
Stage 4: Grading and Classification	Commodity merchants or government grading officials.
Stage 5: Processing	Food and fibre processing plants, including flour mills, oil mills, rice mills, cotton mills, wool mills, and fruit and vegetable canning or freezing plants.
Stage 6: Packaging	Makers of tin cans, cardboard boxes, film bags, and bottles of food packaging or fibre products.
Stage 7: Distribution and Retailing	Independent wholesalers marketing products for various processing plants to retailers (chain retail stores sometimes have their own separate warehouse)

In developing countries, government often plays a pivotal role in the marketing of farm products, p
the 1980s, when economic reforms were embraced in many countries. In recent times, howeve
degree of state involvement in commodity marketing defers, depending on the commodity and mark

In general, government involvement is greatest in the case of grains, particularly rice and wheat,
products in most countries. In some cases, government or state-owned enterprises are also directl
marketing of specific industrial/commercial crops,
including tee, rubber, sugar, palm oil and coconuts, which are major export commodities in
countries.

In general, governments in the developing world are particularly interested in influencing the
marketing of staple crops since the price and level of variability of these commodities have impact o
security and farm incomes. These, in turn, have implications for political stability and the extent t
inflationary pressure on wage rates. Also, government interest in export crops lies in the pote
exchange earnings which are critical to economic growth and development in some of the world's po

4.0 Self Assessment Exercise

Mention the significance of each sage in the marketing of agricultural commodities.

5.0 Conclusion

In this unit, you have been exposed to the concept of commodity marketing, as well as its mecha
also been introduced to the elements of commodity marketing system, as well as the various stage
agricultural commodities.

6.0 SUMMARY

In this unit, you have learnt that:

- Commodity marketing relates to making available to consumers a variety of prin
commodities.
- Commodity marketing involves many market players, including farmers, middlemen, and co

- Marketing of agricultural commodities are in stages from the farm to the ultimate consumers
- There are key linkages in the various stages of marketing agricultural commodities critical
farmers, middlemen and consumers.

7.0 Tutor-Marked Assignments

1. Discuss the elements of commodity marketing..
2. What are the different stages involved in agricultural commodities?

8.0 References and Further Reading

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UNIT 2 MARKETING OF FOOD GRAINS AND SSED COTTON

1.0 Introduction

In Nigeria grains such as millet and sorghum are produced in the northern states, while maize produced in the more humid southern states. In recent years, however, maize production has becon in the northern states especially in the Southern Guinea Savanna vegetation zone. In this zone sole dominating the farming systems.

Wheat production has in the past been limited to Borno, Sokoto and Kano States where the co mid-day season (December-March) and availability of irrigation water favour its production. In th however, other states have started to grow wheat as a result of the ban on wheat importation. Ster such as yam, cassava and cocoyam are very important food crops grown predominantly in the southern parts of Nigeria while sweet and Irish potatoes are produced in the Southern Guin This unit describes the marketing of the major agricultural products.

2.0 Objectives

By the end of this unit, you would be to:

- describe food grain marketing
- describe cotton seed marketing

3.0 Main Body

3.1 General Food Grain Marketing Systems

Grains are an important element of agricultural commodities. Marketing of grains is therefore key many farmers and commodity marketing organizations. The principal players in grain marke producers, marketing boards (where they still exist),
brokers, millers, livestock farmers, animal feed processors, other food manufacturers, grain exchang Figure 13 shows a typical grain marketing system.

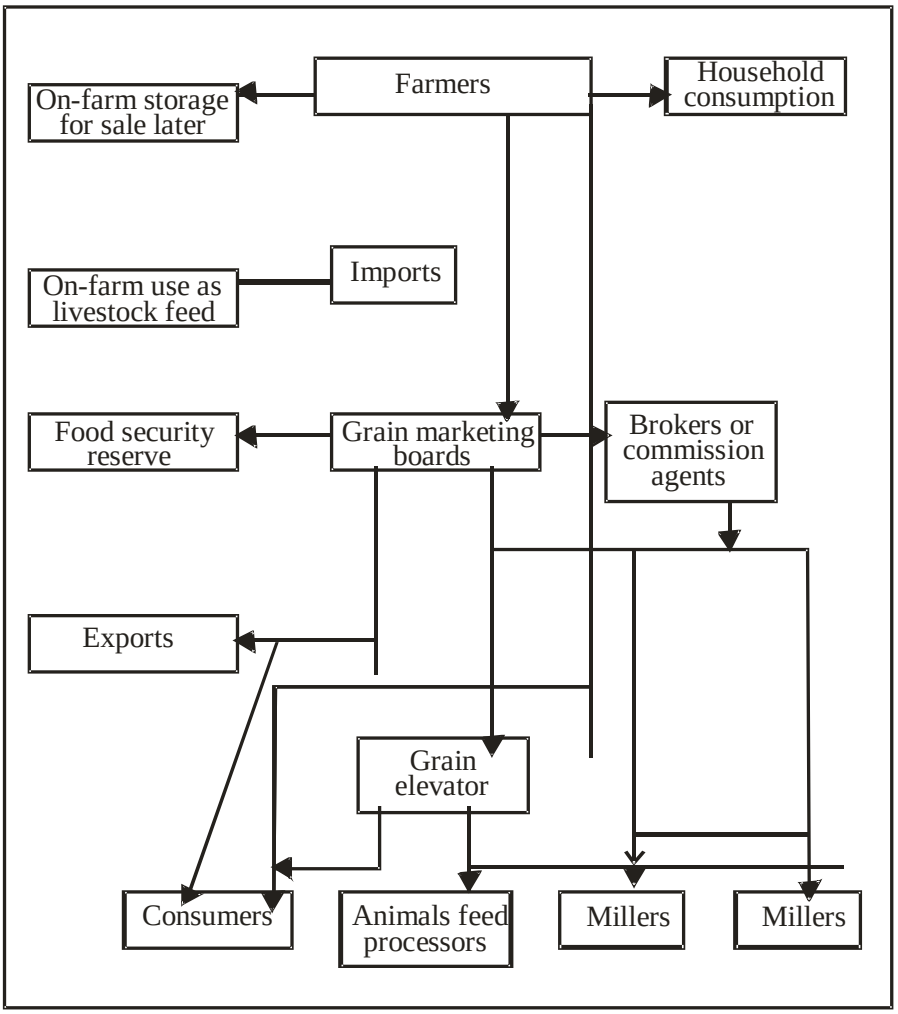

Figure 13 : A Typical Grain Marketing System

The physical marketing system begins with the assembling and collecting points located in the rural producers. The next stage involves the storage areas at the national grains marketing facilities owne parastatal and/or private grain elevator, and the grain milling companies, which in some count owned and in others are government enterprises. Although the size and methods of operation differ to another, the local assembling and collection points usually have grains brought to them either d producers themselves or by rural entrepreneurs.

Thus, in the case of grain, the assembly and storage functions are typically combined at this m common feature of grain marketing systems is the co-existence of a government marketing agen private marketing channel with a myriad of private
traders. The second class of actors in the commodity marketing system is private agents. Thes individuals operating in the system as petty assemblers, traders, large scale merchants, mi corporations and small rural operators), brokers and retailers of
grain products.

3.2 The Nigerian Food grain Marketing Situation

The traditional marketing system for food grains in Nigeria is similar in both the northern and sou country. Generally, this marketing system is characterized by many buyers and sellers. The sell very small quantities for sale at a time In every grain producing area, there are rural markets periodically either once or twice a week. These rural markets could either be isolated or non-isola

Grains are brought by the farmers to the rural markets where the rural buyers participate active the grains. The farmers usually carry the grains to the markets in bags while the mode of transpo by head potterage, bicycles, donkeys or by motor vehicles. In the rural markets, prices which through the process of higgling and haggling may remain the ruling market price on that market day factors such as familiarity between the seller and the buyer, the time of the day the transaction language spoken by the buyer could influence the actual price which the seller receives.

The unit of measure is not standard. It varies from one part of the country to another. For example parts of the country, the grains are sold in basins, tins or bags, whereas in the northern parts grains tiya or bags. Even where bags are used in all the markets the sizes vary from market to market a another. Where metal bowls called mudu and tiya are used the actual capacities of these units of mea from one seller to another. It is for this reason that some Local Government Authorities introduce and tiya measures which all traders must use. From the isolated rural markets, the closest markets the grains are assembled in big lots and moved by motor vehicles to bigger rural non-isolated marke periodically say once or twice a week. The Giwa market, Markarfi market and Soba market in examples of rural non-isolated markets.

In the non-isolated rural markets, wholesalers and their commissioned agents buy from the rural bu 14). Some farmers also bring their grains directly to these markets. Grains are assembled here in b bagged. From these markets the grains are transported in motor vehicles to urban regional market regional markets. An example of the urban regional market is the Sabon Gari market in Zaria or th Market. The urban regional markets hold daily. In such markets the interstate wholesalers buy in lar ship them by road or rail to the non-regional urban markets such as the Iddo market in Lagos, Ibadan and markets in distant places like Benin City and Port-Harcourt. Agribusiness firms and ot have their commission agents buying for them in the rural non-isolated markets. From such mark carried to the warehouses of the firms. This is the case for the feed millers. The feed millers, bre agribusiness firms also have contract grain growers. They enter into agreements with such fa commencement of the production season. They agree on what price to pay for the produce be produce. Such firms sometimes supply inputs to the contract farmers. This is a form of futures mark

The storage of these products takes place at various levels in the marketing system. The farmers grains in their compounds for a few months. The period of storage which could extend to six mont the farmers to take advantage of future rise in prices. At the farmers' level storage of grains is don such as in a room in the living house, in a store in a granary or *rumbu.* The grains are usually sun d

moisture content before they are stored. Storage chemicals such as actellic dust, lindane dust. Gam phostoxin are used to protect the grains against rodents and insect pests while in storage so as losses.

Wholesalers store their grains for some time in granaries, warehouses and silos. The agribus processors have modern warehouses for the storage of grains. In Nigeria, storage facilities a adequate and many studies have reported post harvest losses of between 20 and 30 percent du facilities. The use of elevators in the handling and storage of grains is very rare in this country. A storage facilities, grain prices fluctuate a lot from one production season to another or from one har

Figures 14 illustrates how much fluctuation could take place in the prices of grains between seaso

3.3 Marketing of Seed Cotton

Cotton is a non-food cash crop which has an entirely different marketing system from that of structure of the cotton market is that of a regulated monophony market under the Nigerian Cotton when all the Commodity Boards were abolished by the Federal Government of Nigeria. Cotto operates under the free market forces thus assuming the structure of pure competition.

Cotton is produced almost entirely by small holders with an average farm size of about 0.5 h about 0.8 million farmers on a total estimated land area of 6-700,000 hectares. The participa marketing system consist of the farmers who function as the sellers, the cotton merchants a Cotton is supposed to be sold in a special market called gazetted market. A few of the gazetted cot permanent physical structures while majority are made of temporary physical structures which ar weeks before the marketing season is declared open by the various state governments.

The farmers carry their seed cotton to the cotton market in bags and *kunshin*. The mode of trans cotton to the market is mainly by donkeys and motor vehicles. In the market the product is grade officers who are staff of the State Ministry of Agriculture. There are two grades of seed cotton i grades NA1 and NA2. Grade NA1 includes seed cotton grown in Nigeria which are free from imma damaged or stained seed cotton, insects and leaf trash and is entirely free of foreign fibres, stalks, m moisture.

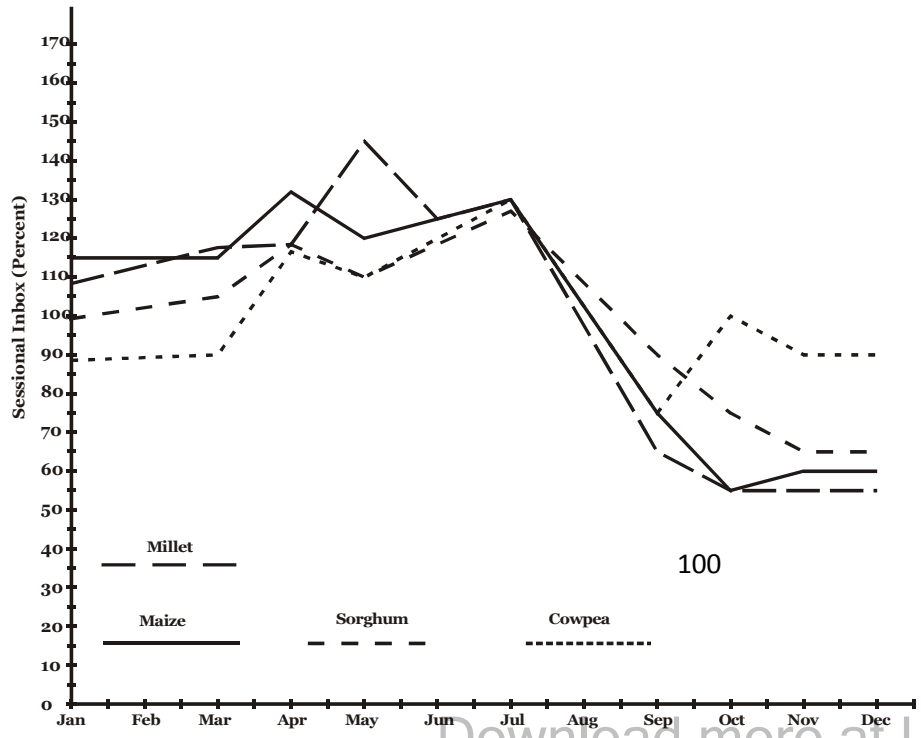

Fig. 14 Seasonal indices for some staple food crops: Zaria, 1985 Source: Isitor, S.U. and S.A. Ingawa (1986)

Grade NA2 seed cotton is entirely free of foreign fibres and added moisture but does not qualify regards freedom from other impurities. The cotton merchants were the buyers who were registered fo by each state government to operate as produce merchants. In subsequent years they had to pay a fe their registration renewed. The produce merchants employed the services of buying agents who boug on their behalf in the various cotton producing villages. The buying agents were paid commission base purchased in a year. The state governments regulated the activities of the cotton merchants and pr criteria for their registration. They also decided the annual registration and renewal fees.

Ginning is the separation of cotton seed from the lint. Under the new market structure following th Nigerian Cotton Board, ginning services became commercialized. The ginneries ginned seed merchants for prescribed fees. The fees charged depended on the grade of the cotton and whethe was mechanically or manually picked. For example, in the 1989/90 season, the ginning fee charge Agricultural Processors Ltd. (C.A.P.) was ₦1350.00, ₦400.00, and ₦450.00 per tonne of seed cotton NA2 and mechanically picked seed cotton respectively. After ginning, both the lint and the seed we merchant who could sell the lint to the local textile mills or export them to foreign markets. Most of th oil mills for crushing into vegetable oil. The marketing channel for seed cotton is shown in Modu ginneries in Nigeria were owned by C.A.P. Since the abolition of the Cotton Board, cotton mark become very competitive. There are now many buyers who make desperate effort to out-buy their high competition has resulted in high producer prices as shown inTable 4.

Table 4: Cotton production and producer prices 1976- 1990
(in bales of 181.43kg)

Year	Production	Estimated consumption (bales)	Producer price (N/tonnee)
1976/77	453,126	117,134	330
1977/78	219,152	288JS3	330
1978/79	206,039	250,670	330
1979/80	161,620	284,000	330
1980/81	149,820	345,000	400
1981/82	115,820	469,045	465
1982/83	108,825	595,620	510
1983/84	69,233	618,495	560
1984/85	82,846	638,395	700
1985/86	55,746	660,569	850
*1986/87	139,374	684,000	1,500-3,000
*1887/88	164,278	707,000	2,000-3,500
*1988/89	320,000	n.a.	2,000-3,500
*1989/90	n.a.	n.a.	2.500-4,000

Price determination by market forces
Source: (I) Nigerian Cotton Board (ii) Cotton Agricultural Processors (iii) Nigerian Seed Cotton Company.

4.0 Self Assessment Exercise

With the aid of a diagram, discuss the marketing channel for grains in Northern Nigeria.

5.0 Conclusion

In this unit you have learnt how to describe food grain marketing and seed cotton marketing.

6.0 Summary

In this unit you have learnt that:

- The principal players in grain marketing systems are producers, marketing boards, brokers, millers, livestock farmers, animal feed processors, other food manufacturers, grain exchanges and exporters
- Cotton is a non-food cash crop which has an entirely different marketing system from that of
- The structure of the cotton market is that of a regulated monophony market under the Niger

Board up to 1986 when all the Commodity Boards were abolished by the Federal Government of I

- Cotton marketing now operates under the free market forces thus assuming the structure of

competition.

7.0 Tutor- Marked Assignment

In order to maximize profit, judging from the Figure14, when will you prefer to buy and sell i. Cowpeas?
ii. Maize?
iii. Millet?
iv. Sorghum?

8.0 References and Further Reading

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UNIT 3 LIVESTOCK AND LIVESTOCK PRODUCTS MARKETING

1.0 Introduction

Livestock (animals) like cattle, goats , sheep, pigs, and their products are very important component Nigeria. Almost every household in the rural areas keep these animals and poultry birds like chicken ducks, turkeys etc**.** It is therefore very important that you learn about their marketing aspects.

2.0 Objectives

By the end of this unit you would be able to:

- describe livestock and meat marketing
- describe poultry and egg marketing
- describe fresh milk marketing

3.0 Main Body

3.1 Livestock and Meat Marketing

Livestock and meat marketing is important to both livestock farmers and meet marketing compa livestock and meat products. Figure 4.2 lists the most important categories of by-product and account for almost two-thirds of the live weight of an animal.

The recovery, processing and effective marketing of these by-products can make a significant diffe of returns to producers and, therefore, they are worthy of note.
From the Figure, it is obvious that the meat component of an animal typically accounts for 80 perce this context, livestock animals include cattle, sheep, goats and pigs. Producers attempt to adjust liv keeping with demand often results in adverse
market effects. The problem for livestock farmers is the inevitable lags between changes in demand to supply. In order to expand meat supplies in response to anticipated increases in demand, livestoc channel animals into the breeding herd rather than the market. This pushes up meat prices over the s

Conversely, when prices fall, farmers try to reduce production levels by selling off animals. The meat supplies and further reduces prices over the short run. Profits are further squeezed by the incre form of additional shortage and interest charges. This practice of adjusting future production accord prices results in marked output and price peaks and troughs. Often, livestock prices drop below pro thus retard the industry since producers become discouraged.

Most Nigerian farmers keep animals such as sheep, goats, local chickens, guinea fowls, ducks, turke to growing crops. Most of these animals are kept under the free-range management system. Just as crops, the farmer brings all other farm animals except pigs and cattle to the same market where food cro

Local chickens are sold directly to the consumers or local assemblers who will later sell them t
Modern poultry producers can sell their birds (broilers and culled layers) directly to consumers at the
assemblers also buy broilers and culled layers from different poultry farmers and sell them to resta
open markets. The local assemblers sometimes carry the birds to the urban regional markets where
retailers in the market. Supermarkets get their supply of broilers and culled layers directly from the p
birds are dressed and stored in deep freezers until consumers exhaust them.

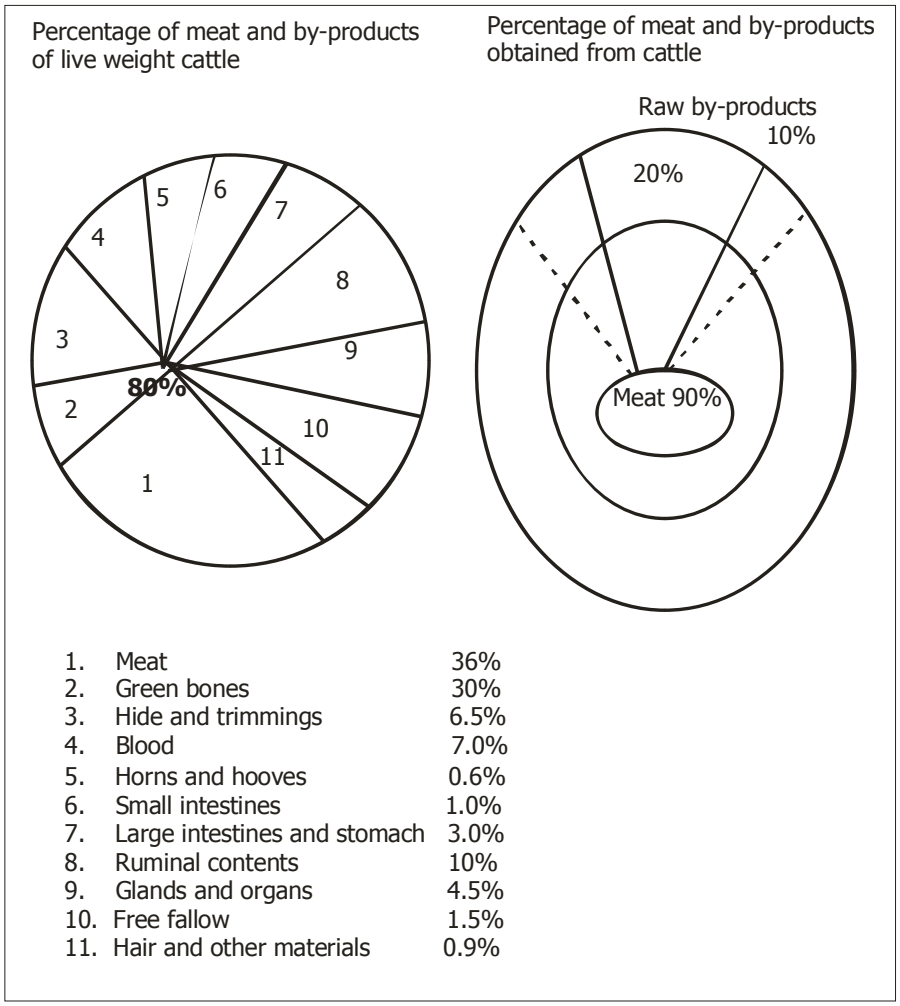

Figure 14: The economic importance of animal by-products

The sheep and goat farmers transport their animals to the rural markets mainly on hoof or by motor veh
animals are carried to the non-isolated rural markets like the Giwa and Zundu markets. A farm
between one and three animals to the market at a time. In the market, commission middlemen take ov
selling the animals from the farmer. They usually have a particular spot in the market grounds where a
congregated. Potential buyers can make their selection from the assorted animals both by visual in

At the end of the transaction, the buyer pays the agreed price and in addition pays a fee called *k* commission for the selling agent.

Sometimes local assemblers come to the rural markets to assemble farm animals. They buy from th middlemen and then transport the animal in lorries and trailers to sheep and goat retail markets in Example of such urban sheep and goat retail markets are at Munchia and New Kano Road in Zaria Butchers in the urban towns usually buy sheep and goat from the urban retail markets on daily ba purchased are either slaughtered there or carried to the public abattoir.

Table 5: Approximate distance and transport cost for some market location in Gongola State

Location	Approx. Distance from Yola (km)	Transport Cost/Animal (N)
Girei	10	6
Nguore	25	10
Song	69	12
Mayo Belwa	65	12
Shigari	30	19
Dong	76	22
Fufore	30	19
Lafia	93	25
Numan	61	20

Source: Lothan, L.S., 1988

Cattle usually have their separate market places. These are found in many urban centres such as Zar Gusau, to mention a few. Government legislation mandates butchers to slaughter cattle in the abattoi is inspected before it is transported to super-markets, meat shops, cold rooms and meat stalls in urban r

Cattle markets hold once weekly in some centers on a particular day of the week. The exact number o market is difficult to determine because whoever is financially capable and interested could joi business and buy as many animals as he/she could afford on any market day. Most of the butchers a registered but the brokers are not recognized to be registered officially, so they operate without license.

Transportation of cattle to and from the markets is either on hoof or in haulage trucks and ope vehicles. Transportation fares vary according to the distance, road condition, the number and size of 5 gives some approximate distances and transport| costs between some market locations and Yola.

The observed market channel is depicted in Figure 5. The market channel can be divided into two: Ch State and Channel II linking terminal markets outside the state.

Pricing is done confidentially in low tones until a suitable price is arrived at and the highest bid accepte for the animal, the buyer usually gives the brokers, who helps in the negotiation, some unfixed comm owner pays about ₦500 per animal sold, of which ₦200 each is revenue for Local and State Governm while ₦300 is commission for the market caretaker. The buyer is then issued with a receipt as secur checking while in transit. While the merchants ship their animals to terminal markets, butchers tran slaughter slab for veterinary inspection before slaughtering the following morning.

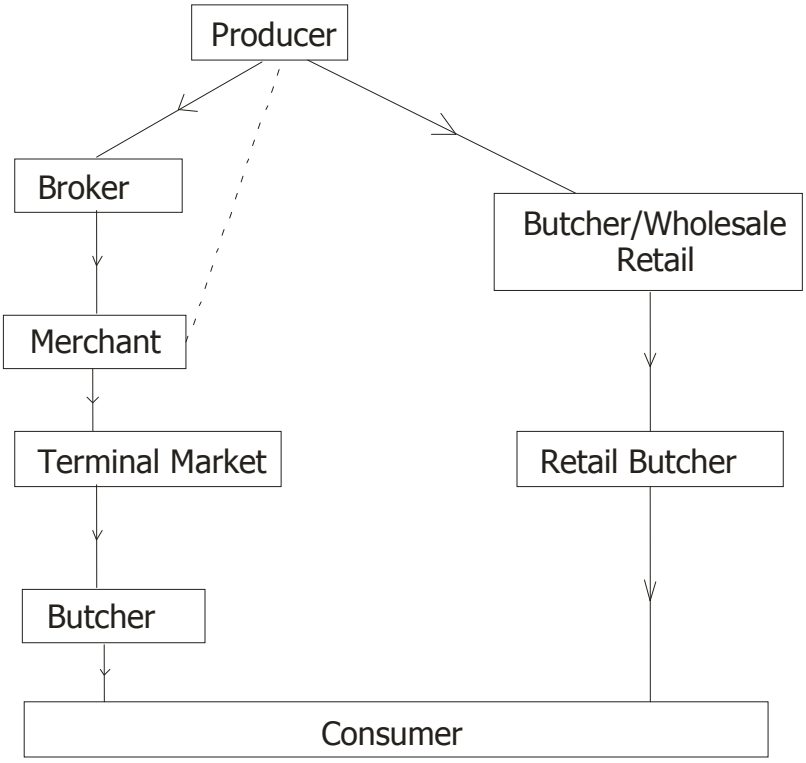

Figure 14: Beef Cattle Marketing in Gongola State of Nigeria
Source: Ezekiel, L.S. (1988).

The prices varied according to the animals' age, sex, and breed, location of the market and the occupa
An example of such variability is shown in Table 5.

3.2 Poultry and Egg Marketing

Poultry farmers have three distinct types of birds from which to select their flocks:
* Hybrid Broilers: In addition to pure chicken breeds, specialized breeders sell chickens which are multiple crosses. The latter are known as hybrids, gaining more weight quickly and lay more eggs and are therefore genetically used by poultry breeders. They are only suitable for commercial having an excellent food/meat
conversion ratio.

* Dual Purpose Birds: These give good carcasses when slaughtered but only moderate egg prod female can be expected to weigh about 2.25kg. This type of bird has the
advantage of rarely exhibiting cannibalism and is hardy against diseases. However, they do tend t consequently, egg production can decline.

* Light weight Birds: These are bred for egg production. Lightweights have excellent food con rarely go broody. However, they do need good management and, therefore, are only recommende poultry farmers. Poultry enterprises typically pass through distinct stages of development as outlined

Table 6: Development Stages of Poultry Enterprises

Item	1st Stage Backyard poultry	2nd Stage Farm Flock	3rd Stage Commercial Poultry Farm	4th Stage Specialised Egg Production	5th Stage Integrated Egg Production
Sub-division of egg production	Day-old chick pulled growing feed production, mixed culled hens egg and manure integrated on farm	Hatchery production separate from poultry farming	Feed production separate from poultry farms	Chicken meat production becomes independent of poultry production in the form of the broiler industry	Separate enterprises re-integrated as a business
Main management characteristics	Natural hatching	Artificial hatching and sexing	Feed mixing	Egg processing plant	Controlled environment houses
Type of farming	Subsistence farming	Mixed farming	Joint egg and meat production	Egg industry (single commodity)	Egg complex
Labour	Part-time	Part-time	Full-time	Division of management of labour	Separate daily work and random work
Building	Free range	Water feeder	Water feeder	Manure disposal equipment	Egg belt automatically controlled house

Within the developing world, poultry and egg businesses may be found at all five stages of devel more commonly they are likely to be more at the first and second stages. Amongst peasant far

allowed to find their own food and water and roost where they can in the family compound. Under it is not surprising that productivity is low and mortality rates among the birds are high.

Commercial broiler and layer enterprises need to have a much higher level of technology a However, they too have their problems. In developing countries, commercial producers are rel extent, upon expensive imports of breeding stock, i.e. hatching eggs and/or day-old chicks, anima and vitamin and mineral additives for compound feeds.

3.3 The Marketing of Fresh Milk

Whilst milk can be converted to a range of dairy products, such as cheese, butter, yoghurt, dried po are not commodities. It is generally the case that the processing of milk into these products invol product differentiation. That is, the methods, techniques and technologies used in manufacturing da to impact unique characteristics to the finished product.

Milk is extremely important human food. Not only is it a relatively cheap source of protein, it is als such as calcium and vitamins A, D and B2. The quality of milk is usually judged according to its bu addition, buyers are also concerned that it should

be free from diseases like tuberculosis. In all parts of the world, milk production is seasonal but the p are higher in the tropics. Production in the tropics peaks just after the rains, when there is lush past progressively declines the further into the dry

season. As in the case of beef production, milk producers have to take into account the lengthy bio trying to match the supply and demand for liquid milk. When there is an over-supply of milk, possible to channel some of the excess into making butter,

cheese, yoghurt and other processed dairy products. However, the market for these products is finite dairy products can be stored longer, higher levels of capital are tied up and interest charges are l these value added products, in comparison to milk.

4.0 Self Assessment Exercise

Briefly discuss marketing system for sheep and goats originating from the northern part of Nigeria.

5.0 Conclusion

In this unit you have learnt about the livestock and meat marketing, poultry and eggs, and fresh milk

6.0 Summary

In this unit you have learnt that:

- Commodity marketing relates to making available to consumers variety of primary agricultur
- Commodity marketing involves many market players, including farmers, middlemen, and co
- There are key linkages in the various stages of marketing agricultural commodities critical to

farmers, middlemen and consumers.

7.0 Tutor-Marked Assignment

Describe in your own words i) fresh milk marketing ii) poultry egg marketing.

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Module 8 Elementary Theory of Demand and Supply

Unit 1 Demand

Unit 2 Supply

UNIT 1 THEORY OF DEMAND

1.0 Introduction

Understanding the laws of demand and supply is very crucial for the study of agricultural marketing. the pre-occupation in this module. Unit 1 deals with the demand side while unit 2 deals with the sup

2.0 Objectives

By the end of this unit you would be able to:

- Explain what demand is
- Explain the factors affecting demand for agricultural products
- Determine price elasticity of demand,
- Determine Income elasticity of demand
- Determine cross price elasticity of demand
- Explain Engel's Law

3.0 Main Body

3.1 What is Demand?

Demand has to do with the quantity of a commodity consumers are willing and able to pay for at a gi specified time period. The demand schedule is a table that shows the quantity of a product demanded An example is shown in Table 7

Table 7: Prices and associated quantities of eggs demanded

Price per dozen (N)	Quantity (dozen/week)
3.50	110
4.00	80
4.50	75
5.00	62
5.50	55
6.00	50

If we plot a graph of quantity demanded at different prices, the curve that is produced is referred to a curve.

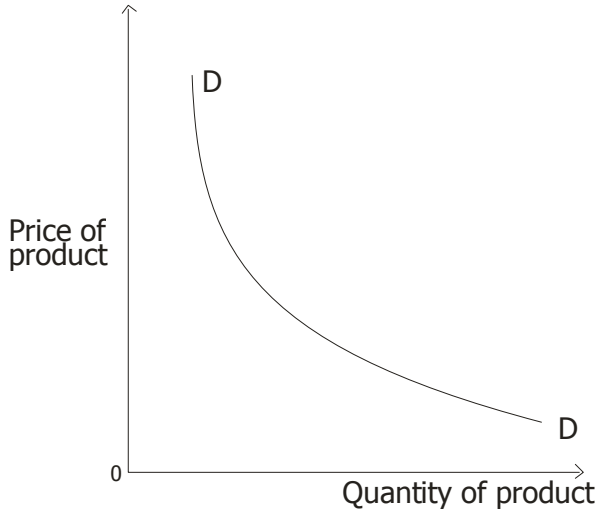

Figure 15: Demand curve for a product

The properties of the demand curve are:

1. It is negatively sloped, from left to right.
2. It is downward sloping.

These properties indicate that the quantity demanded is inversely related to the price of the comm that as the price of the commodity falls, the quantity demanded increases.

3.2 Factors Affecting Demand for Agricultural Products

The most important factors that affect demand are:

a. Prices of the commodity
b. Prices of other commodities
c. Changes in total population and in the age distribution of the population.
d. Changes in income distribution and per capita.
e. Changes in tastes and preferences of the consumers.

We shall examine each of these factors:

a. *Prices of the Commodity*

Changes in the price of a commodity will cause the quantity demanded to change. This is called the There is an inverse relationship between price and quantity demanded such that as the price of a co quantity demanded rises and vice versa. This relationship is illustrated in Figure 15. As price falls from demanded rises from q_1 to q_2. It should be noted that changes in the price cause movement along t curve. It does not bring about a shift of the demand curve.

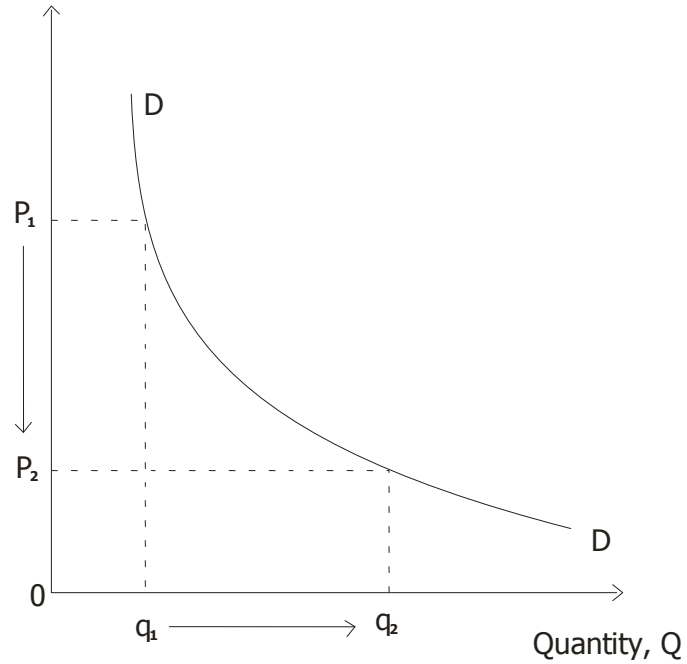

Figure 16: Demand curve showing the effect of price on quantity demanded

The reasons for the inverse relationship between price and quantity demanded can be summarize

i.) As a consumer buys increasing amounts of an item, the marginal utility derived from succes commodity consumed decreases and consequently he will only be interested in buying more if th

ii.) As the price of a commodity falls, the good becomes cheaper relative to other goods, thus a given ou could buy more.

iii.) A good proportion of the population of many countries is in the low-income bracket. Consequently citizens on low income are able to buy more thus resulting in increases in demand.

b. *Prices of other Commodities*

Commodities could be related to one another in two ways. They could either be substitutes or complement said to be a substitute of another if the two goods satisfy the same want. That is, one could be used in pla goods that are substitutes, the demand for that particular one will fall when the price rises while the deman will rise. Examples of substitute goods are cassava and yam, or sorghum and millet.

Two goods are said to be complementary if they have to be consumed together. For example, tea kerosene and stove, bread and butter, etc. For goods that are complementary if the price of one rises, it consequently, the demand for its complement will also fall.

c. Changes in Population

Changes in population, all other things being equal. represent changes in the number of mouths to b population therefore leads to increase in demand. The age distribution of the population is also an that affects demand. If the population distribution changes in favour of babies and children, the d

and services used by children will rise while the demand for goods used by adults will be les composition of population changes only slowly and by small amounts from year to year and can thus b a minor factor.

d. Changes in income

The relationship between income and demand for food is not very straightforward. *For* some income increases the demand for such items increase. These types of goods are usually referred to However, for some other goods as income increases the demand falls, these are called inferior goo as per capita income rises the demand for income superior goods such as meat. eggs, milk, will rise for income inferior goods such as second hand clothing, offal or frozen fish falls

The income distribution is also an important factor. If the income distribution changes in favour income, the demand for goods and services generally will rise, but if income distribution changes in fav high income bracket, the demand for manufactured goods such as cars and electronics could rise for food generally may not rise because this category of consumers were already consuming adequa food items.

e. *Changes in Taste*

Taste is an important factor that affects demand. Changes in tastes and preferences determine whether a co particular commodity or not. For example, some people due to religious belief or other reasons do not e such people, there will be no demand for pork irrespective of whether the price of pork is low or high.

If the taste of consumers changes in favour of a particular commodity, the demand for that commodity wi taste of consumers changes against the same commodity, the demand for that commodity will fall.

f. Changes in Demand

Changes in all the above named factors except changes in the price of

the commodity will cause a change in demand. When we say that demand has changed, it means that the shifted from one position to another. Those factors which are capable of shifting the demand curve are called

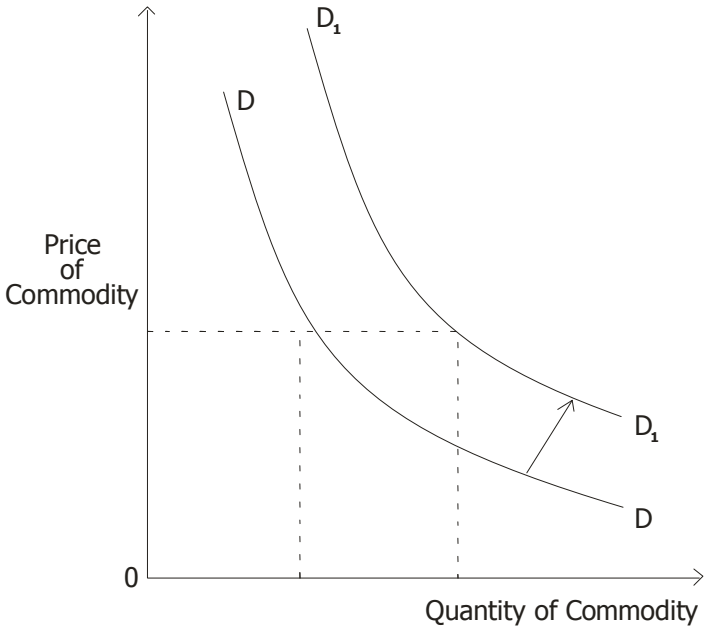

Figure 17: Shift in demand curve due to increases in income.

In Figure 17, changes in any of the factors discussed above such as increase in income can cause the demand curve to shift from DD to D_1D_1. This means that at the same price P1 the quantity demanded could increase from q_1 to q_2. The most important factors influencing the long run demand for agricultural products are the changes in the general price level and the growth of the population. The other factors affect specified products and may be of short run effect.

3.3 Elasticity of Demand

This is the responsiveness of demand to a unit change in price. The law of demand states that demand will fall if prices rise. Elasticity therefore measures the amount or proportion by which quantity demanded will change given a unit or small change in price. The formula for computing demand elasticity is:

$$Ed = \frac{\text{\% Change in quantity demanded}}{\text{\% change in price}}$$

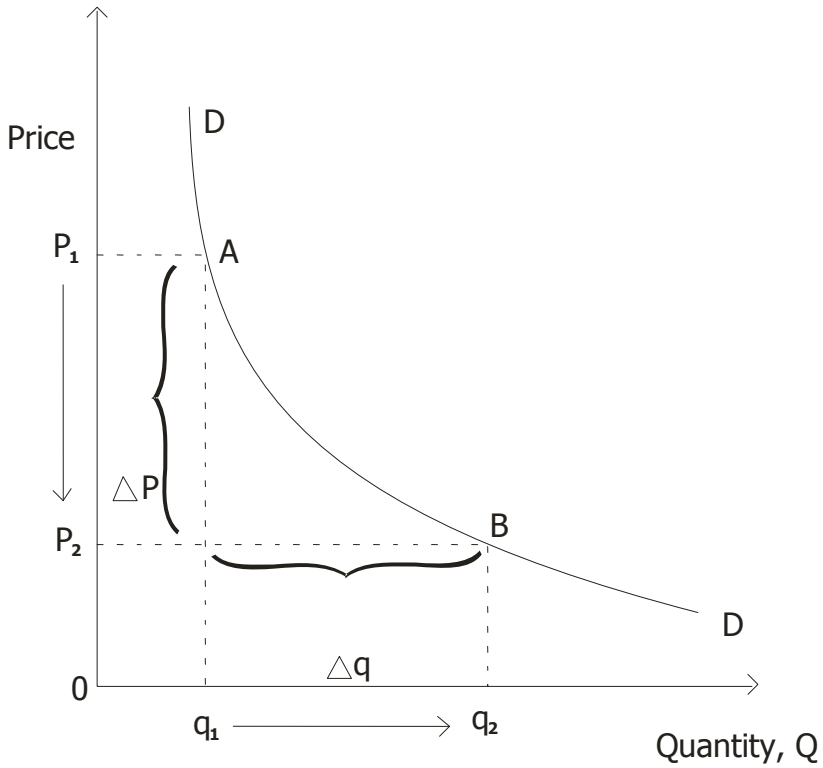

Figure 18: Determination of elasticity of demand

In Figure 18, as price changes from P_1 to P_2, the quantity demanded changes from Q_1 to Q_2.

Percentage changes in Q = $\frac{\Delta Q}{Q} \times 100$

P= $\frac{\Delta P}{P} \times 100$

Ed = $\frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

There are two types of price elasticity of demand, they are (i) point elasticity and (ii) arc elasticity of demand. Point elasticity is the elasticity of demand at a given point on the demand curve. For example, in Figure 18, elasticity at point A is measured by

Ed= $\frac{\Delta Q}{\Delta P} \times \frac{P1}{q1}$

Arc elasticity is the elasticity between two points on the demand curve. It is the average elasticity between two points on the demand curve. In Figure 18 arc elasticity between points AB on the demand curve =

Ed= $\frac{\Delta Q}{\Delta P} \times \frac{\frac{P1+P2}{2}}{\frac{q1+q2}{2}}$

3.4 Coefficient of Elasticity

When we calculate the elasticity of demand as shown above, the value so obtained is called the coefficient of elasticity. If elasticity of demand is greater than one, the product is said to be elastic in demand. That means that a proportionate change in price will lead to a more than proportionate change in quantity demanded. For example, a 1% change in price will lead to a more than 1% change in quantity demanded. If elasticity of demand is less than one it means that demand is inelastic and a proportionate change in price causes a less than proportionate change in quantity demanded.

When the elasticity of demand is equal to one a proportionate change in price causes equal proportionate change in quantity demanded. In a perfectly elastic demand situation, the demand curve is horizontal and parallel to the x-axis such that at the same price any quantity of the commodity could be purchased. The situation is reversed in a perfectly inelastic situation when the demand curve is vertical and parallel to the y-axis such that irrespective of the changes in the price of the commodity, the quantity demanded would remain unchanged. Figure 19 illustrates the different categories of the demand curves.

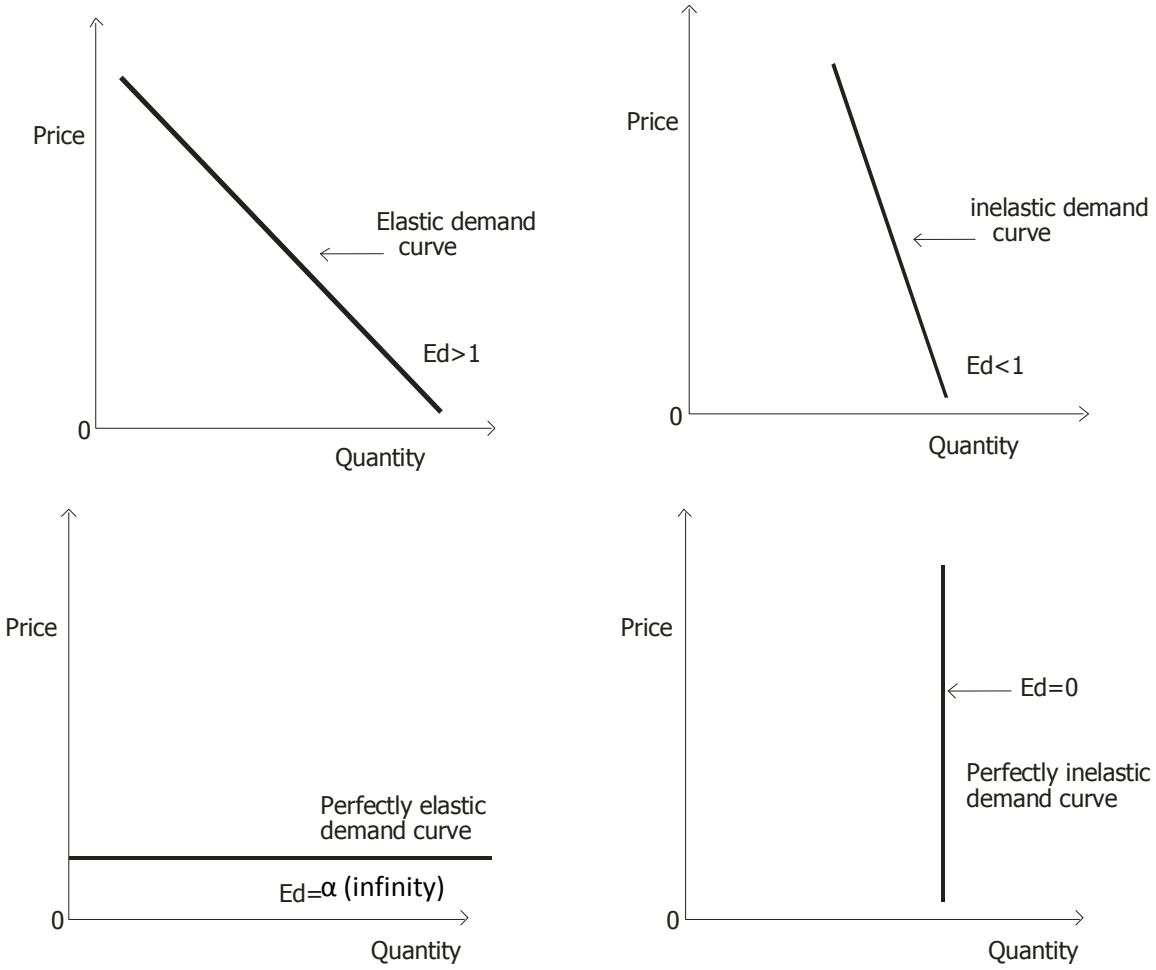

Figure 19 : Elastic, inelastic, perfectly elastic and perfectly inelastic demand curves.

3.5 Cross Price Elasticity of Demand

This is the responsiveness of quantity demanded to changes in the price of another commodity.

$$Ed_{\alpha} = \frac{\%\Delta \text{ in } QX}{\%\Delta \text{ in } Py}$$

Cross price elasticity can vary from minus (-) infinity to plus (+) infinity. Complementary goods have negative cross elasticity of demand. The closer the relationship between two commodities (complements and substitutes), the larger the absolute value of the cross elasticity. If the two goods bear little or no relationship the cross price elasticity will be close to zero.

3.6 Elasticity of Demand for Food

The demand for any one food item is more elastic than the demand for all food items combined. This is because it is easier to substitute one type of food for another but it is not easy to have a substitute for food. Livestock products are generally more elastic than food crops.
The reason is that meat products such chicken And eggs are considered as luxuries and could be substituted for by fish and protein rich food grains and pulses as the prices of the former rise. Generally, agricultural products are price inelastic in demand.

3.7 Elasticity and Total Revenue

Price elasticity of demand is directly related to the total revenue realized from the sale of a commodity.

Total revenue = Price x quantity sold.

TR = P x Q

Where TR = Total revenue

P = Unit price of the product

Q= Quantity sold.

For a product which has inelastic demand a proportional fall in the price will lead to a less than proportional rise in quantity demanded. On the other hand, a proportionate rise in price will lead to a less than proportionate fall in quantity demanded. Thus, for products that have inelastic demand, like agricultural products, a good harvest which leads to increase in supply, will not only lower the unit price but will also lead to a lower total revenue from the total production.

For example, suppose a farmer produces 3 tonnes of maize in a certain year when the price of maize is ₦1.50 per kg. his total revenue will be 3,000 x ₦1.50 = ₦4,500. If during the following year he produces 3.5 tonnes as a result of inelastic demand the unit price could fall to ₦1.20 per kg for him to sell off all the quantity produced. The total revenue will be ₦4,200. The example shows that increase in output does not

only lower the unit price, but since it is inelastic, it also lowers the total revenue received by the farmer. If on the other hand, the demand was elastic, the price might have dropped to ₦1.40 per kg at the same level of output of 3,5000 kg. The total revenue would be 3,500 x ₦ 1.40= ₦4,900 which is greater than when the price was ₦1.50 per kg. Figure 19 depicts the phenomenon. The more elastic demand curve would give total revenue OP_2KQ_3 which is greater than OP_2MQ_3 total revenue obtainable with the inelastic demand curve.

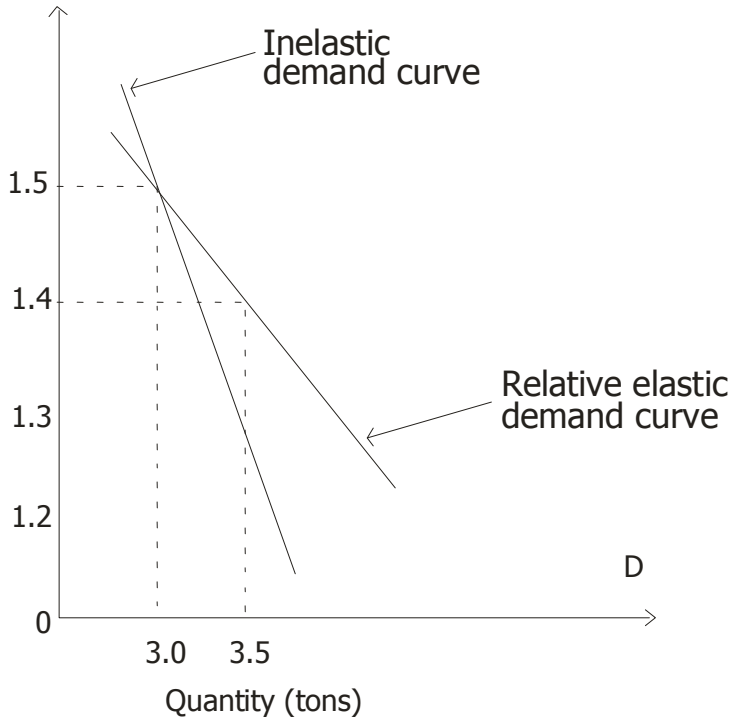

Figure 20: Inelastic and relatively inelastic demand curve and corresponding total revenues.

3.8 Income Elasticity of Demand

Income elasticity of demand is the responsiveness of demand to changes in income.

$$Ed = \frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$$

If the quantity demanded rises as income increases, such a commodity is referred to as a normal good but if the quantity demanded falls as income rises, such a commodity is referred to as an inferior good. A good that is extremely inferior is referred to as Giffen good, for example, second hand clothing and offals (intestines, animal skins, and bones). The income elasticity for normal goods is positive while the income elasticity for inferior goods is negative (Figure 21).

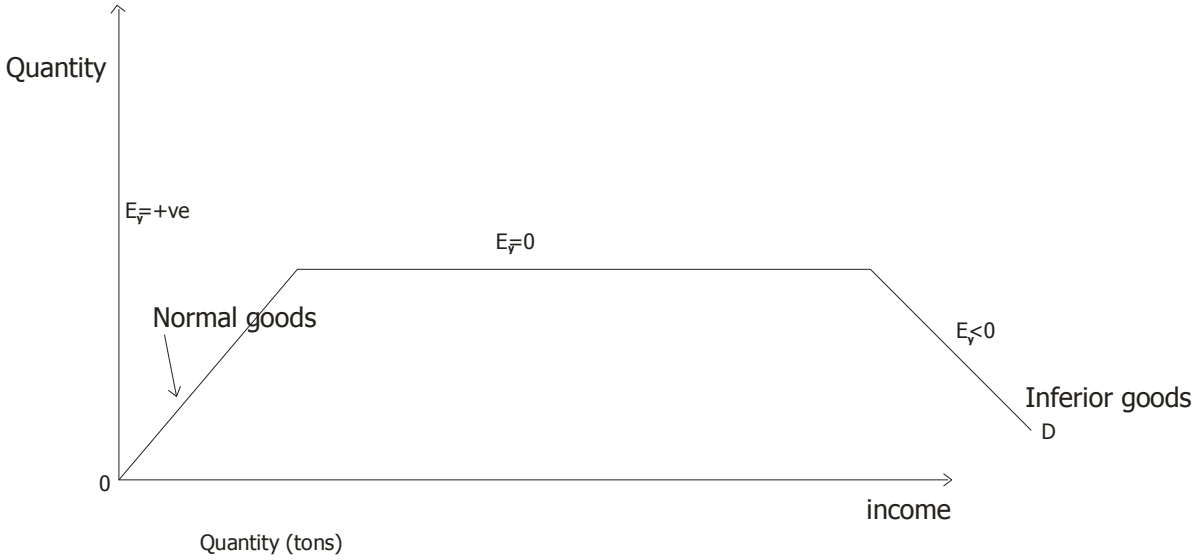

Figure 21 : Income elasticities of demand for normal and inferior goods.

The concept of income elasticity of demand is very important to farmers as well as to manufacturers of goods as it enables them to understand the reaction of the consumers towards the demand for their products whenever there is change in income. Farm products, generally are income inelastic in demand.

3.9 Engel's Law

The relationship between total income and the quantity of goods purchased or the amount spent on a particular food or group of commodities is sometimes referred to as the Engel's curve Such curves are also called income consumption curves. Ernest Engel a German statistician, worked in Belgium and Saxony in the middle of ire nineteenth century to determine the relationship between income and expenditures on food. His work which is now popularly referred to as the Engel's Law shows that high income groups spend more per capita for good than low income groups; but the high income groups spend a smaller proportion of their income for food than the low income group. Thus the general rule from this study is that the bigger the family income, the smaller was the proportion or percentage of income spent on food. This is shown in Figure 22 (panels a and b).

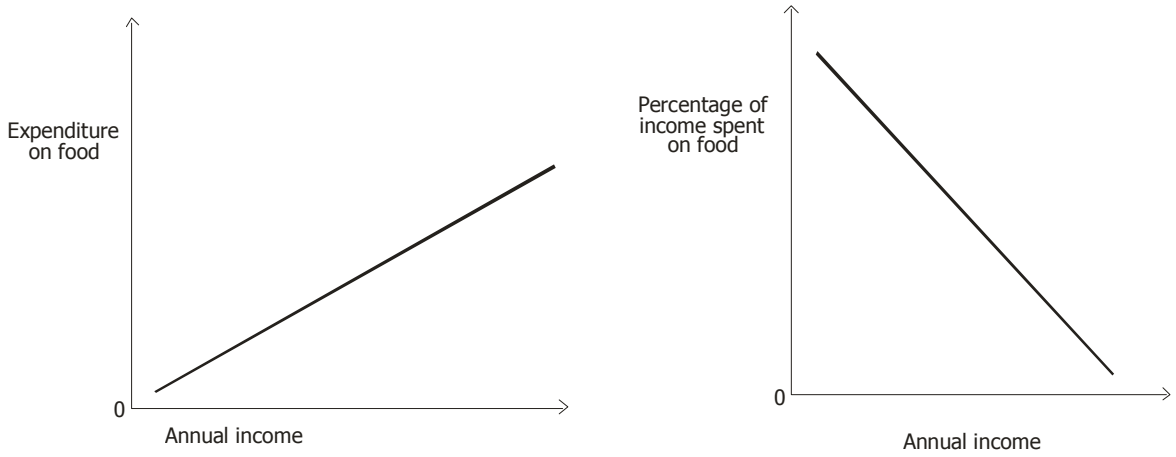

Figure 22: Relationship between income and expenditure on food

3.10 Empirical Determination of Demand

Consider a demand function

$$Qd = a - bP$$

Where Qd = quantity demanded

a = intercept or constant term

b = slope or rate of change

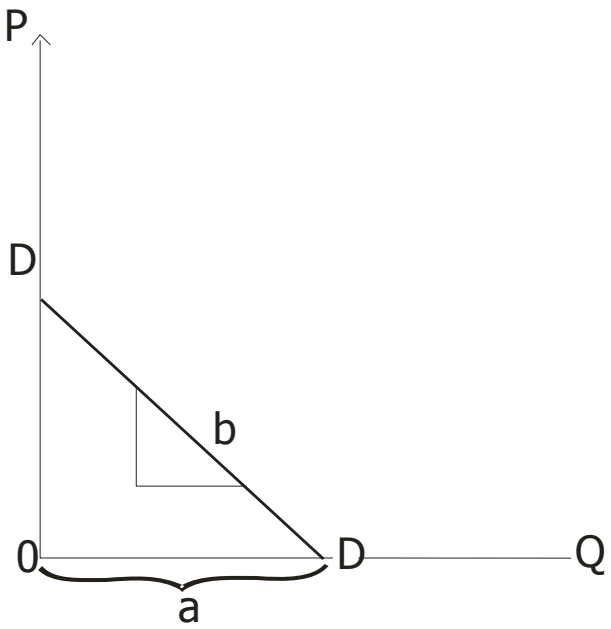

Figure 23: Slope and intercept of a demand curve.

If we have a demand function Qd = 200 - 25 P

200 is the intercept while the slope is -25. This means that for a unit

change in price, by-25. $\frac{AQ}{dP} = -25$

From such a demand function it is possible to determine the price elasticity of demand at any given price. For example, given a demand function Qd = 600 - 25p; if p = 8.00, we can find the price elasticity of demand. Since the price elasticity of demand is expressed as:

Ed=$\frac{\Delta Q}{\Delta P} \times \frac{p}{Q} or \frac{dp}{dp} \times \frac{p}{q}$

But dq/dp is the slope which in this case is -25.

Therefore at the price level of 8.00, the quantity demanded at that price

= 600 - 25(8)

= 600 - 200 = 400

Price elasticity of demand = -25 x 8/400= -0.5. The demand for this product is therefore price inelastic since the coefficient of elasticity is less than one.

4.0 Self Assessment Exercise

Distinguish between own price elasticity of demand and cross price elasticity of demand.

5.0 Conclusion

In this unit you have learnt how to define demand and the factors affecting demand for agricultural products. You have learnt how to determine price, income and cross price elasticities of demand and Engel's Law.

6.0 Summary

In this unit you have learnt that:

- Demand has to do with the quantity of a commodity consumers are willing and able to pay for at a given price
- The demand schedule is a table that shows the quantity of a product demanded at different prices.
- The most important factors that affect demand are:

✓ Prices of the commodity
✓ Prices of other commodities
✓ Changes in total population and in the age distribution of the population.
✓ Changes in income distribution and per capita.
✓ Changes in tastes and preferences of the consumers.

- Elasticity of demand is the responsiveness of demand to a unit change in price.
- The law of demand states that demand will fall if prices rise.
- If elasticity of demand is greater than one, the product is said to be elastic in demand.
- If elasticity of demand is less than one it means that demand is inelastic and a proportionate change in price causes a less than proportionate change in quantity demanded
- When the elasticity of demand is equal to one a proportionate change in price causes equal proportionate change in quantity demanded.
- Cross Price Elasticity of Demand is the responsiveness of quantity demanded to changes in the price of another commodity.
- The demand for any one food item is more elastic than the demand for all food items combined.
- Price elasticity of demand is directly related to the total revenue realized from the sale of a commodity.
- Income elasticity of demand is the responsiveness of demand to changes in income.
- Thus the general rule from this study is that the bigger the family income, the smaller was the proportion or percentage of income spent on food.

7.0 Tutor - Marked Assignment

1. What factors would determine the demand for a named agricultural product?
2. Using diagrams show cases of elastic, inelastic, unitary, and infinity price elasticities of demand.

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UNIT 2 ELEMENTARY THEORY OF SUPPLY

1.0 Introduction

In the previous unit you learnt about the theory of demand. The other side of the coin is the theory of supply, the understanding of what is needed to determine the equilibrium quantity and price of the agricultural commodity.

2.0 Objectives

By the end of this unit you will be able to:

- Explain what supply is
- Explain the factors affecting supply of agricultural products
- Determine price elasticity of supply
- Explain interrelationships between supply and demand
- Explain resultant effects of shifts in demand and supply curves

3.0 Main Body

3.1 What Is Supply?

Supply is defined as the quantity of a commodity that producers are willing and able to offer for sale at a given price and time. The supply schedule is a table that shows the quantity of a commodity supplied at different prices.

Table 8: Supply schedule for cowpea (Hypothetical Dada).

Price per kilogram (N)	Quantity supplied (tones/week)
2.00	5000
2.50	6000
3.00	6500
3.50	6900
4.00	7300
4.50	8000

Table 8 shows that the quantity supplied increases as price increases. If we plot a graph of quantity supplied against the respective prices, the resulting curve is referred to as the supply curve as depicted in Figure 24.

The supply curve is positively sloped indicating that producers are to supply more as price rises. This is related to the profit maximum objective of the rational producer.

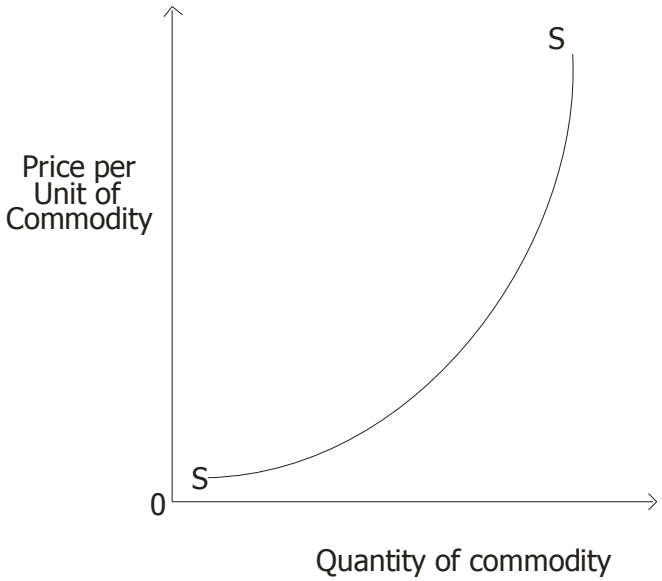

Figure 24: Supply Curve for a commodity.

3.2 Factors Affecting Supply of Agricultural Commodities

The following factors affect the supply of an agricultural commodity:

a. Prices of the commodity
b. Prices of other competing products (relative prices);
c. Changes in prices of factors of production or inputs;

d. Changes in the number of firms or producers;
e. Goal of the producer;
f. Changes in technology.

Changes in the price of a commodity will cause the quantity supplied to change. This is called the own price effect. There is a direct relationship between price and quantity supplied such that as the price of a commodity increases the quantity supplied rises and vice versa. This relationship is illustrated in Figure 25. As price rises from P_1 to P_2 quantity supplied rises from q_1 to q_2. It should be noted that changes in the price cause movement along the same supply curve. It does not bring about a shift of the supply curve.

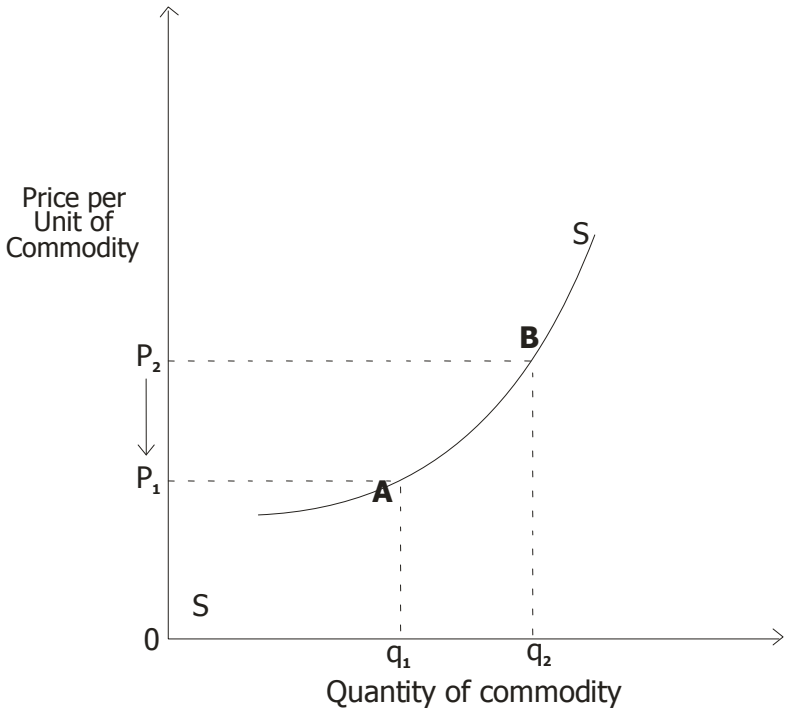

Figure 25: Movement along the supply curve

Change in all other factors b to f will cause a shift in the position of the supply curve. For example assuming there is an increase in the prices of some or all the factors of production, such as fertilizer, insecticides, labour and herbicides, the supply curve will shift from SS to S_1S_1. At the same product price P_1 the quantity supplied falls from q_1 to q_2. This is shown in Figure 26.

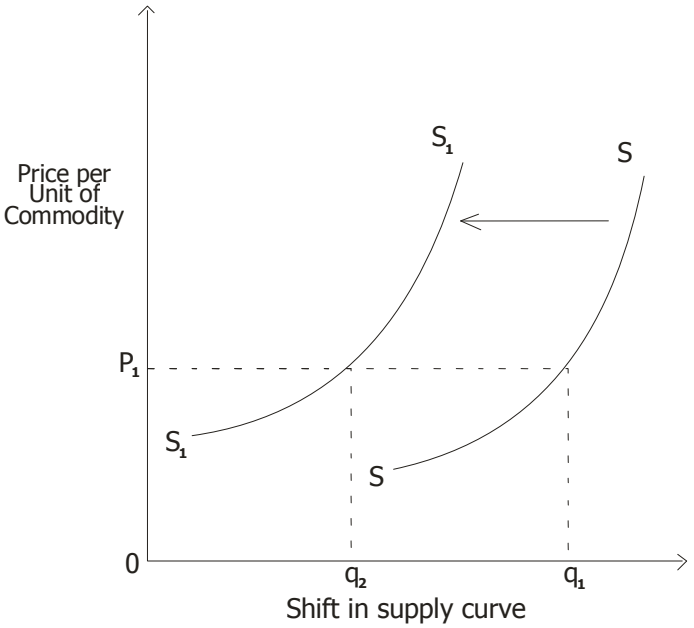

Figure 26: Movement along the supply curve

3.3 **Elasticity of Supply**

Price elasticity of supply is the responsiveness of supply to change in price. It is measured as:

$$Es = \frac{\%\ \Delta in\ quantity\ supplied}{\%\ \Delta\ in\ price}$$

If Es is greater than 1 the supply curve is said to be elastic. If Es is less than 1, the supply curve is said to be inelastic. If Es is equal to 1 the supply curve has unitary elasticity.

Agricultural products generally are inelastic in supply in the short-run. This means that a proportionate change in price will cause a less than proportionate change in quantity supplied. Agricultural products are generally inelastic in supply because time lag is required for production to adjust to changes in price. For example, if prices of food grains increase in March, the quantity supplied cannot increase much in the short run, because farmers can only supply from the quantity produced in the previous year. The necessary adjustment can only be made against the next production season. The response is much more delayed in case of tree crops.

3.4 Interrelationships between Supply and Demand

The theory of demand and supply provides the key to the market process as the prime determinant of prices. Price theory holds that all things being equal, as prices increase so demand falls and supplies increase.

Figure 27 depicts the demand and supply schedules for a given commodity. For the purposes of illustration, assume that the product is rice. These schedules indicate the quantity of the product demanded and supplied at various prices within a given time period. At the intersection of these two curves is the point of equilibrium, the price at which the quantity supplied by sellers equates the quantity demanded by buyers. In this example, the equilibrium price is P_1 per kg of rice. And the quantity at the point of equilibrium is Q_1.
The interrelationship is established between the demand and the supply curves. This is needed to establish the price and quantity at which both demand and supply sides agree.

3.5 Resultant Effects of Shifts in Demand and Supply Curves

3.5.1 Shift in supply curve (demand curve constant)

The equilibrium situation at point E_1 in Figure 27 remains potent only when the assumption of "all things being equal" holds. If however, the producers were to cut back supply because factors of production have become more expensive, the supply curve SS now shifts to the left (i.e. decreases) to S_1S_1. A new equilibrium price P_2 and a new equilibrium quantity Q_2will now be established. The resultant effect of this change is a lower quantity of the product and a higher equilibrium price while the demand curve remains unchanged.

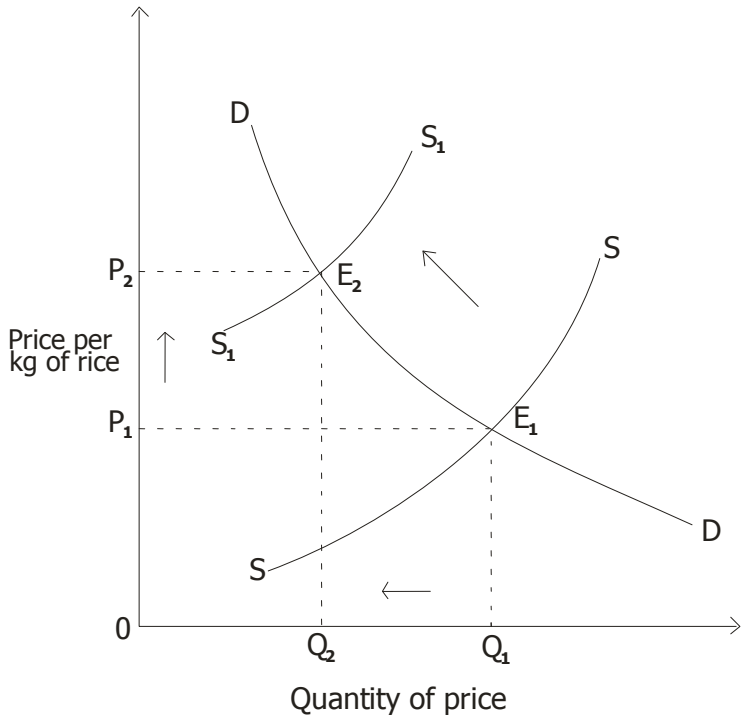

Figure 27: Upward shift in demand curve

3.5.2 Shift in demand curve (supply curve constant)

It is also possible that the supply curve remains constant but if, for example, the incomes of the consumers increase and favour consumption of more rice, the demand curve can shift to the right (i.e. increase). The equilibrium point before the shift in demand curve is E_1 (Figure 28) and the new equilibrium point is E2. The equilibrium price increases from P_1 to P_2 while the equilibrium quantity increases from Q_1 to Q_2.

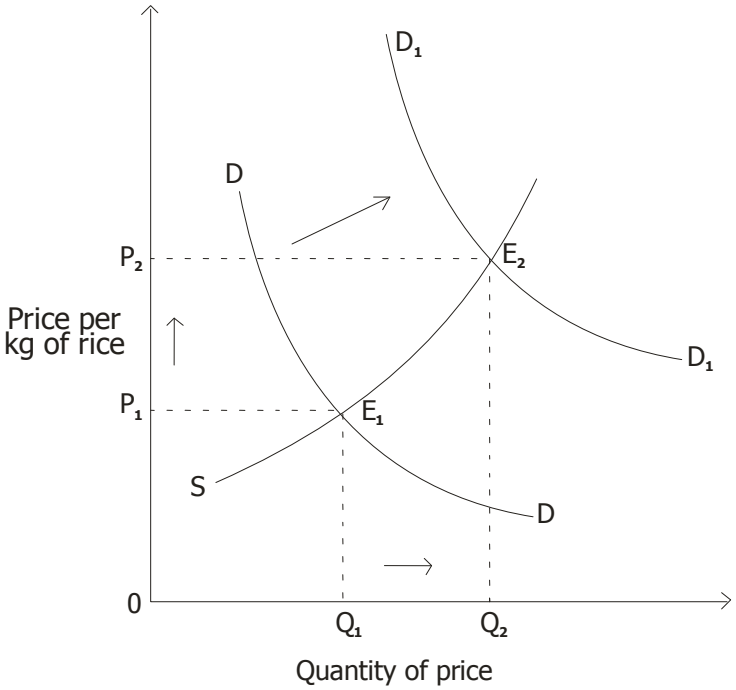

Figure 28: Upward shift in demand curve

It is also possible to have shifts in both supply and demand curves simultaneously. The resultant effects will depend on which one shifts more than the other.

4.0 Self Assessment Exercise

Graphically show what happens to equilibrium price and quantity when both supply and demand curves shift to (i) the right (ii) the left.

5.0 Conclusion

In this unit you have learnt how to define supply and the factors affecting supply of agricultural products. You have learnt how to determine price elasticities of supply, explain interrelationships between supply and demand and explain resultant effects of shifts in demand and supply curves.

6.0 Summary

In this unit you have learnt that:

- Supply has to do with the quantity of a commodity producers are willing and able to sell at a given price
- The supply schedule is a table that shows the quantity of a product supplied at different prices.
- The most important factors that affect supply are:

✓ Prices of the commodity
✓ Prices of other competing commodities

- ✓ Changes in prices of factors of production or inputs;
- ✓ Changes in the number of firms or producers
- ✓ Goal of the producer
- ✓ Changes in technology

- Elasticity of supply is the responsiveness of quantity supplied to a unit change in price.
- The law of supply states that supply will rise if prices rise.
- If elasticity of supply is greater than one, the product is said to be elastic in supply.
- If elasticity of supply is less than one it means that supply is inelastic and a proportionate change in price causes a less than proportionate change in quantity supplied
- When the elasticity of supply is equal to one a proportionate change in price causes equal proportionate change in quantity supplied and said to have unitary elasticity.
- At the intersection of these two curves is the point of equilibrium, the price at which the quantity supplied by sellers equates the quantity demanded by buyers.
- When supply curve shifts to the left, demand curve held constant, the resultant effect of this change is a lower equilibrium quantity of product and a higher equilibrium price.
- When the demand curve shifts to the right, supply curve remaining constant, the equilibrium price and quantity both increase.

7.0 Tutor – Marked Assignment

1. What factors are responsible for shifts in the supply curve?
2. What does it mean if the elasticity of supply is:
   i) greater than one?
   ii) less than one?
   iii) equal to one?

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MODULE 9 AGRICULTURAL PRICES

Unit 1 Causes and Types of Price Fluctuations
Unit 2 Measures of Reducing Price and Income Variations
Unit 3 Empirical Price Analysis

UNIT 1 CAUSES AND TYPES OF PRICE FLUCTUATIONS

1.0 Introduction

In this unit we shall explain the persistent patterns of price behaviour through time. Such behaviour includes seasonal patterns of change, yearly variation, trends and cycles

2.0 Objectives

By the end of this unit you will be able to:

- Explain how price behave over time
- Enumerate causes of price variations
- Enumerate types of price variations

3.0 Main Body

3.1 Price Behaviour

. Prices that are observed over time are the result of a complex mixture of changes associated with seasonal, cyclical, trend and irregular or random factors. The most common feature observed in agricultural prices is a clearly marked seasonal pattern of change. Usually prices of storable products such as cereals and leguminous grams are depressed to the lowest level at harvest time and then rise as the season progresses, reaching a peak just before the next harvest. These price variations are caused by a number of factors.

3.2 Causes of Price Fluctuations

a. Divergence between planned output and realized output

Agricultural products especially crops depend very much on weather conditions. Depending on the climatic and ecological conditions, actual output may be greater or less than what was planned. Such a divergence in output is not applicable to industrial products because they are not directly affected by the vagaries of weather and the destructive activities of pest and diseases. The biological nature of the agricultural industry makes this divergence inevitable and thus results in price fluctuations.

b. Speculative activities of the middlemen

The activities of speculative middlemen can bring about seasonal price fluctuations in that they buy agricultural commodities at harvest time when they are cheap, store them and release them to the market when prices rise. This activity could result in artificial scarcity, which forces food prices up.

c. ***Seasonally in production and marketing***

Most agricultural products are characterized by some seasonality in production and marketing patterns. Most crops which are produced under rain fed conditions have clearly defined production seasons and off seasons. They are harvested once in year and depending on perishability, they may be stored for sale during the off-season. For livestock products seasonality in production is mainly due to seasonal variation in climatic conditions, seasonality of feed supplies and the biological nature of the particular livestock concerned. For example, chickens do better in the dry season than during the rainy season. The reason is that birds are more susceptible to diseases during the rainy season than in the dry season. This type of seasonality in production gives rise to seasonality in supply, which in turn leads to seasonal price variation.

d. ***Changes in Demand and Supply***

The economy is in a dynamic state moving up and down over time and producing variations in income and purchasing power. This factor affects the demand for farm products causing the demand curve to shift either to the left or to the right. With agricultural production dependent upon factors, outside man's control, the supply curve for the individual commodities also shifts. These changes in demand and supply produce fluctuations in prices. The extent of these price fluctuations will, however, depend upon the magnitude of the shifts in demand and supply and also on the elasticities of demand and supply.

It is expected that both demand and supply will be increasing over time. Supply could decrease due to improvement in technology while demand could rise due to increase in population and income resulting from economic growth. In view of the inelastic nature of both the demand and supply curves for agricultural products, such shifts will give rise to wide variations in agricultural prices.

3.3 Types of Price Fluctuations

We shall limit our discussion to seasonal and cyclical price variations which are the most common types of price variations.

(a) Seasonal price variation.

These are regular patterns of price fluctuations that occur within a year. Owing to the dependence of agricultural production on climatic factors. there are definite periods of high and low production for different commodities and the prices vary accordingly depending on the season

The prices of most farm products do not remain constant throughout the season; they follow some regular seasonal patterns. Seasonal prices reach their lowest level at harvest time and their peak a few weeks to the new harvest. Figure 29 and Tables 29-32 show seasonal price variation for cereal grains in Zana, Kaduna State of Nigeria.

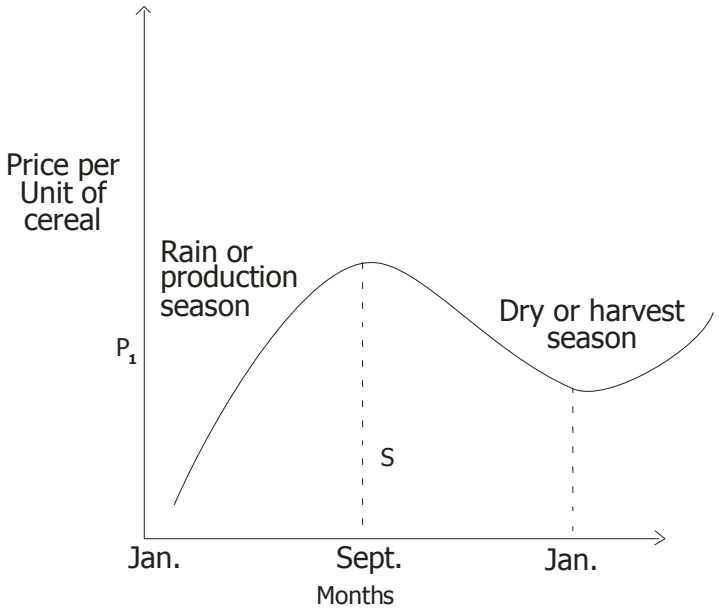

Figure 29: Seasonal price variation for cereal grains in Kaduna State of Nigeria.

From the figure and tables it can be seen that seasonal prices for cereal grains in Zaria reach their lowest level around January when all grains must have been harvested from the farm. The prices incrase progressively through the preceding months and reach a peak around September just before the new harvest sets in.

Livestock and many other perishable agricultural products such as fruits and vegetables are produced all the year round. In spite of this feature, however, the level of production varies seasonally due to the biological nature of the product, weather patterns, seasonally in demand and seasonal difference in production costs. As market supplies vary within the year due to one or a combination of the above factors, prices also show seasonal patterns that are often fairly consistent from year to year. For example, during the Christmas and Sallah celebrations, the prices of rams, chickens and beef rise and fall shortly after these seasonal events.

Table 9: Average monthly retail prices in Zaria market, 1988 (N/kg)

*Price

Month	ML	SG	CP	GN	RC	WH	MZ	GR
Jan.	Not available							
Feb.	Not available							
March	1.44	1.32	3.94	1.84	3.81	4.14	1.43	1.88
April	1.61	1.52	4.13	2.52	4.13	3.87	1.64	2.16
May	1.61	1.50	4.68	3.01	4.68	4.51	1.66	2.46
June	2.11	2.00	4.82	3.45	3.05	5.33	2.22	2.96
July	2.40	2.30	4.82	3.01	3.05	5.51	2.30	3.01
Augt	2.64	2.53	5.86	3.89	6.55	5.06	2.72	3.26
Sept.	2.82	2.65	7.93	4.39	6.73	4.71	2.69	3.26
Oct.	2.19	2.39	4.00	4.31	4.27	4.83	1.81	2.45
Nov.	1.62	2.08	3.67	4.14	5.04	6.04	1.76	2.09
Dec.	1.52	1.39	3.33	4.96	5.36	5.93	1.68	2.14

Source: Forming Systems Research Programme Annual Market Survey, Institute for Agricultural Research, Samaru.

(b) Cyclical price variation

A. cycle is a pattern that repeats itself regularly with the passage of time. A true cycle is self-sustaining and not the result of chance factor. There is controversy in the literature as to whether such cycles exist in economics. Perhaps the most commonly accepted causes of agricultural cycles are exogenous factors such as drought and diseases.

Table 10: Average monthly retail prices in Zaria market, 1989 (N/kg)
*Price

Month	ML	SG	CP	GN	RC	WH	MZ	GR
Jan.	1.58	1.60	3.83	5.17	6.14	5.12	1.75	2.61
Feb.	2.74	2.47	4.44	5.68	6.13	4.13	2.24	2.71
March	2.16	2.07	5.04	6.99	7.66	6.00	2.21	3.15
April	2.16	2.07	5.05	7.27	8.25	5.95	2.21	3.38
May	2.21	2.12	5.33	7.21	8.09	6.01	2.21	4.50
June	2.40	2.43	5.86	7.34	7.95	6.62	2.57	5.29
July	2.21	2.32	6.20	7.21	8.14	6.30	2.45	4.17
Augt	2.04	2.13	6.40	7.71	7.14	5.97	2.19	3.32
Sept.	1.68	1.84	4.99	6.17	6.93	5.66	1.88	3.00
Oct.	1.92	1.84	5.15	6.21	6.43	5.51	7.00	2.69
Nov.	1.84	1.84	5.36	5.76	4.93	6.15	1.75	2.69
Dec.	1.89	1.27	4.41	4.81	3.86	5.79	1.42	2.47

Source: Forming Systems Research Programme Annual Market Survey, Institute for Agricultural Research, Samaru.

Table 11: Average yearly retail prices in Zaria market (N/kg)

Month	ML	SG	CP	GN	RC	WH	MZ	GR
1971	0.09	0.10	0.24	0.09	na	na	na	na
1972	0.09	0.10	0.26	0.10	na	na	na	na
1973	0.12	0.13	0.22	0.12	0.27	0.24	0.12	0.12
1974	0.13	0.15	0.34	0.22	0.39	0.30	0.14	0.14
1975	0.12	0.13	0.25	0.21	0.40	0.28	0.14	0.19
1976	0.18	0.19	0.27	0.46	0.54	0.28	0.21	0.28
1977	0.26	0.16	0.38	0.36	0.59	0.36	0.30	0.38
1978	0.36	0.32	0.63	0.45	0.61	0.51	0.33	0.48
1979	0.32	0.28	0.46	0.55	0.62	0.42	0.30	0.39
1980	0.35	0.29	0.64	0.71	1.06	0.40	0.35	0.48
1981	0.57	0.52	1.30	0.69	1.16	0.51	0.47	1.01
1982	0.54	0.43	1.22	0.75	1.05	0.51	0.44	0.95
1983	0.50	0.40	1.20	1.31	1.15	0.52	0.47	1.00
1984	1.19	1.18	2.23	2.93	3.61	1.21	1.11	1.29
1985	1.15	1.00	2.36	2.26	3.10	1.11	0.93	0.96
1986	0.59	0.58	2.31	2.115	3.31	0.88	0.59	0.77
1987	0.58	1.31	2.85	3.31	0.88	0.59	0.77	na
1988	2.00	1.97	4.72	3.55	5.07	4.99	1.99	2.57
1989	2.02	2.00	5.16	6.46	6.82	5.78	2.08	3.33

Source: Forming Systems Research Programme Annual Market Survey, Institute for Agricultural Research, Samaru.

Table 12: Average yearly wholesales prices in Zaria market N/kg, 1971-1989

Produce*

Year	ML	SG	CP	GN	RC	WH	MZ	GR
1971	0.07	0.08	0.23	0.07		Not available		
1972	0.08	0.08	0.27	0.08		Not available		
1973	0.13	0.12	0.24	0.12	0.27	0.23	0.10	0.12
1974	0.13	0.13	0.36	0.20	0.35	0.24	0.13	0.12
1975	0.14	0.12	0.27	0.23	0.39	0.27	0.14	0.13
1976	0.17	0.17	0.27	0.39	0.53	0.23	0.19	0.25
1977	0.24	0.23	0.39	0.41	0.60	0.30	0.29	0.37
1978	0.36	0.30	0.66	0.44	0.58	0.40	0.30	0.48
1979	0.30	0.24	0.45	0.48	0.56	0.30	0.27	0.34
1980	0.29	0.24	0.56	0.62	0.85	0.31	0.29	0.43
1981	0.46	0.42	0.00	0.58	1.10	0.43	0.39	0.97
1982	0.45	0.36	1.01	0.65	0.96	0.42	0.28	0.83
1983	0.40	0.35	1.03	1.05	1.1.0	0.48	0.38	0.95
1984	0.96	0.85	1.94	1.92	3.17	0.85	0.85	1.10
1985	0.99	0.76	2.02	1.92	2.03	0.73	0.69	0.81
1986	0.49	0.44	1.83	2.28	2.09	0.78	0.46	0.66
1987	0.50	0.45	2.30	2.46	2.27	1.27	0.42	0.81
1988	1.39	1.36	3.86	3.18	3.86	3.35	1.32	1.90
1989	1.43	1.27	4.12	5.14	5.19	3.77	1.36	1.91

*ML= Millet WH=Wheat SG=sorghum
MZ= Maize CP=Cowpea GR=Garri
GN=Rice

Source: Forming Systems Research Programme Annual Market Survey, Institute for Agricultural Research, Samaru.

Certain farm prices fluctuate in a rather regular manner through a period of time in addition to fluctuating erratically from year to year. Livestock production and prices more or less have a regular *cycle*. The price cycle runs opposite to the production cycle, that is, when production increases, it depresses prices and this movement is reversed after sometime.

Cyclical movement in prices is more irregular than that of production. For example, the price of broilers increases if demand is increasing faster than supply. Eventually the supply rises to keep pace with the increase in demand. With time, supply may overtake demand and finally depressing prices at the peak level of supply. Figure 30 shows the cyclical movement in prices and production.

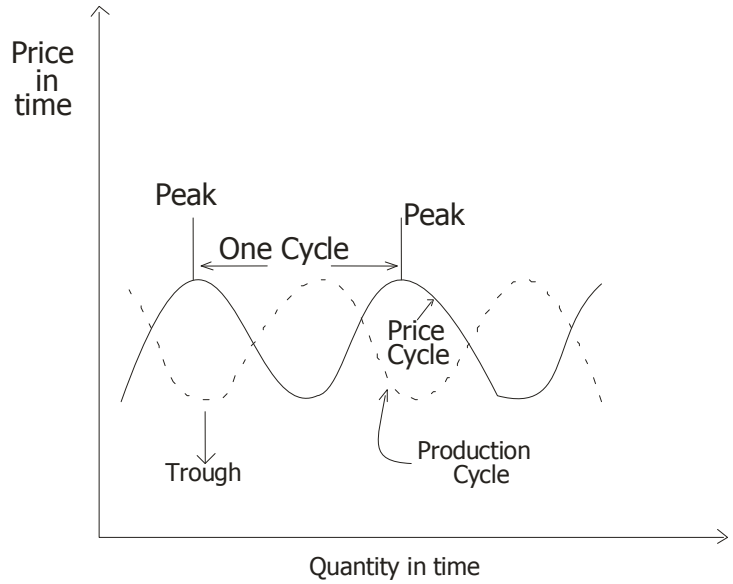

Figure 30: Cyclical price movement.

Generally, cyclical price variations can be explained by the tendency of the producers to base future production plans on prices and profits of current and recent past operations. Such cycles are more applicable to commodities over which the farmer has considerable control in its production such as cattle, eggs, broilers and hogs. The length of a cyele (called the period) is the time from one peak to the next or from one trough to the next and it is usually related to the time required to produce a new generation, thus it depends on the biological nature of the products. The hog cycle is approximately four years long, for poultry (layers) it is approximately two years and for cattle about ten years. The height of a cycle is called the amplitude. The length and amplitude of a cycle over time varies.

Cyclic movement in the prices of certain farm products is an evidence of imperfection in the functioning of the marketing system over a period of time. They cause alternate periods of shortage and glut. They partly result from imperfect forecasting of prices on the part of producers.

4.0 Self Assessment Exercise

Discuss two important ways in which agricultural price fluctuations could be minimized.

5.0 Conclusion

In this unit you have learnt about how prices vary, the causes and the types of price fluctuations.

6.0 Summary

In this unit you have learnt that:

- Prices that are observed over time are the result of a complex mixture of changes associated with seasonal, cyclical, trend and irregular or random factors.

- Causes of Price Fluctuations are

✓ Divergence between planned output and realized output
✓ Speculative activities of the middlemen
✓ Seasonally in production and marketing
✓ Changes in Demand and Supply

- Types of Price Fluctuations discussed here are seasonal and cyclical price variations which are the most common types of price variations.

7.0 Tutor- Marked Assignments

1. Mention and discuss the two important types of agricultural price variations.
2. Discuss the major causes of agricultural price fluctuations.

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UNIT 2 MEASURES OF REDUCING PRICE AND INCOME VARIATIONS

1.0 Introduction

You learnt in the previous unit that variations in prices of agricultural products are inevitable as a result of many factors outside the control of the farmer. In this unit you will learn the measures that farmers and the government can take to reduce the variations.

2.0 Objectives

By the end of this unit you would be able to explain the measures that can be used to reduce price and income variations

3.0 Main Body

3.1 Measures to reduce price and income variations

There are a number of measures which both the government and farmers can adopt to reduce price variability which in turn affect farmers' income and consumers' purchasing power. These measures are:

a. Price control
b. Output control
c. Future or contact sale

3.2 *Price Control*

This is a measure which the government could adopt to regulate prices.

There are two types of price control namely:

- Maximum price control or price ceiling and
- Minimum price control.

i. ***Maximum price control***

The aim of fixing maximum price for a commodity is basically to increase consumers' purchasing power. This is usually done when the government feels that the prices of commodities are too high probably above the reach of the average consumer. Successive governments in Nigeria have at one time or the other attempted to fix prices of commodities with little success. Usually a maximum price is fixed below the equilibrium or market price.

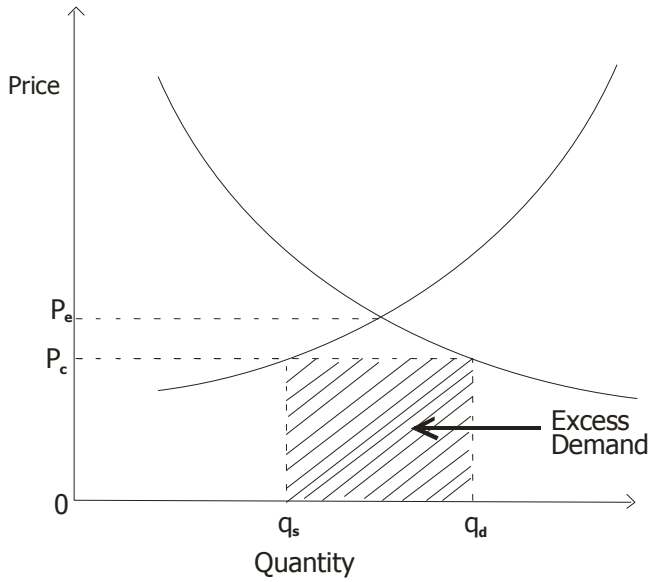

Figure 31: Maximum price control.

In Figure 31, Pe is the market price which the government considers high and therefore fixes Pc as the control price. The control price. PC, is lower than the market price, therefore it gives rise to excess demand. Since demand is in excess of supply at that price, there will be an upward pressure on price which tends to render the control price ineffective. It encourages hoarding and preferential sales. Under such a situation the commodity could disappear from the regular market into a black market where sellers will charge prices higher than the control price.

For the control price to be effective the following should be done:

(a) Rationing of the commodity should be done to ensure that every consumer has access to some quantity of the scarce commodity no matter how small.

(b) Price control inspectors should be posted to strategic markets to ensure that sellers keep to the control price. This is, however, a costly exercise.

(c) The authority controlling the price should be in a position to supply the excess demand. If this is done, the supply curve appears to have shifted to S'S' (Fig. 32) making the control price appear as a new equilibrium price.

Quantity of Commodity

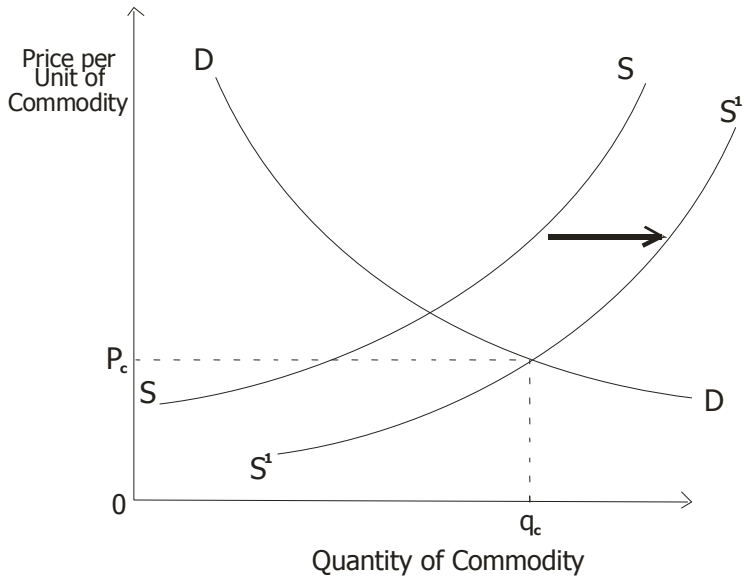

Figure 32: A new equilibrium price as a result of shift in supply curve.

If the government is not able to do any or all of the issues discussed above, price control will not be effective, instead it would worsen the situation**..**

ii. Minimum price control

In this case the price is usually fixed above the market price. The objective of this policy is to help farmers get a good price for their produce in the face of low demand.

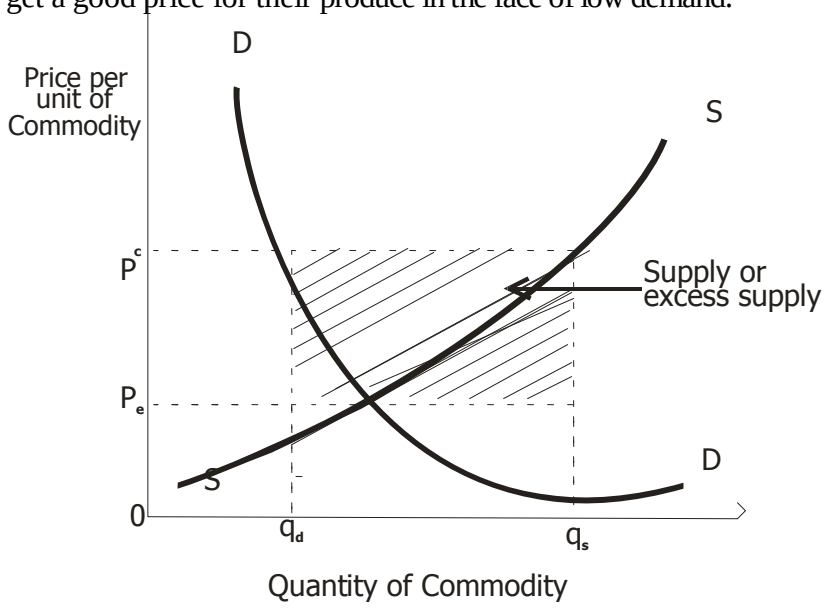

Table 32: Minimum price control.

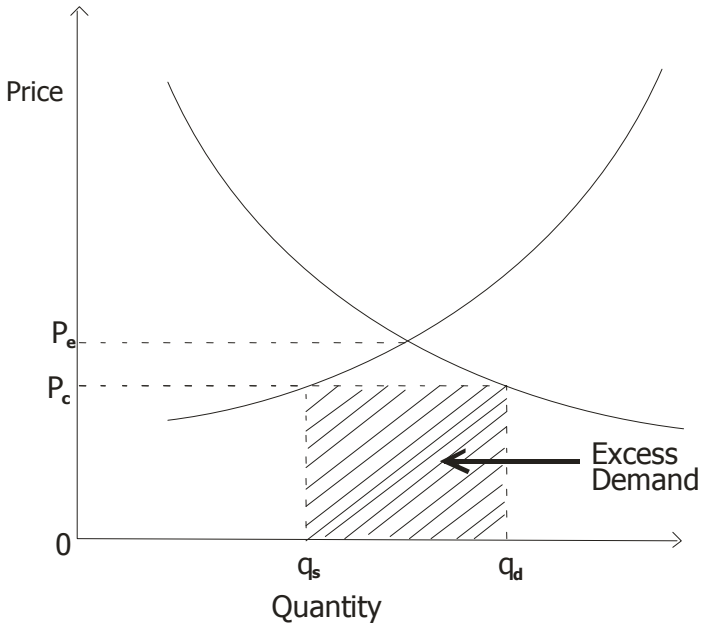

Figure 33: Maximum price control.

In Figure 9.5, Pc is the controlled price which is above the market price, Pe. At the control price, supply is greater than demand. This type of price control can only be effective if the price control authority is able to buy off the excess supply, otherwise there will be a downward pressure on price and price will fall back to Pe. This was the situation with the cotton marketing system in Nigeria where various state governments recommended a minimum price at the beginning of the 1990 season but they were not in a position to buy the excess supply at that price.

3.3 *Output Control*

Output control is achieved in the following two ways:

i. Quota system and

ii. Buffer stock mechanism.

i. Quota *System*

Under this system each farmer is assigned a certain quota to produce and he is penalized if he exceeds his quota. This is usually done in respect of export crops e.g. cotton, cocoa, coffee etc. which are usually sold in quota markets at certain prices higher than what obtains in non-quota markets. The aim is to ensure that there is no glut or excess supply in the world market which could bring down the price of the commodity. Under some international arrangement, each coffee member country is assigned a certain quota of the product which can be sold m the quota market. In such a case, each country specifies to its farmers the amount they should produce. Any farmer who produces more than the quota allocated to him has to sell the excess outside the quota *market* where he is likely to receive lower prices.

ii. Buffer *Stock*

The producers through cooperative or group effort could adjust supply

according to the demand situation in the local market by storing the excess and releasing stocks as the need arises. By so doing they are able to stabilize agricultural prices which imply stability in farmers' income.

Suppose in a certain year output is OQo at equilibrium price OPo as shown in Figure 34 .If output in another year is OQ_1, excess produce supply will cause farm price to fall to OP_1. In order to stabilize prices and income, the farmers will store the excess Q_1 - Qo and the price will remain stable at OPo, the equilibrium price. If, on the other hand, output in the next year is OQ_2, demand will exceed supply that year, and the price will tend to rise to OP_2. Since the association has some quantity in stock, they will release an amount equal to $Qo-Q_2$, which will equalize demand and supply and restore price to the original level Op_0.

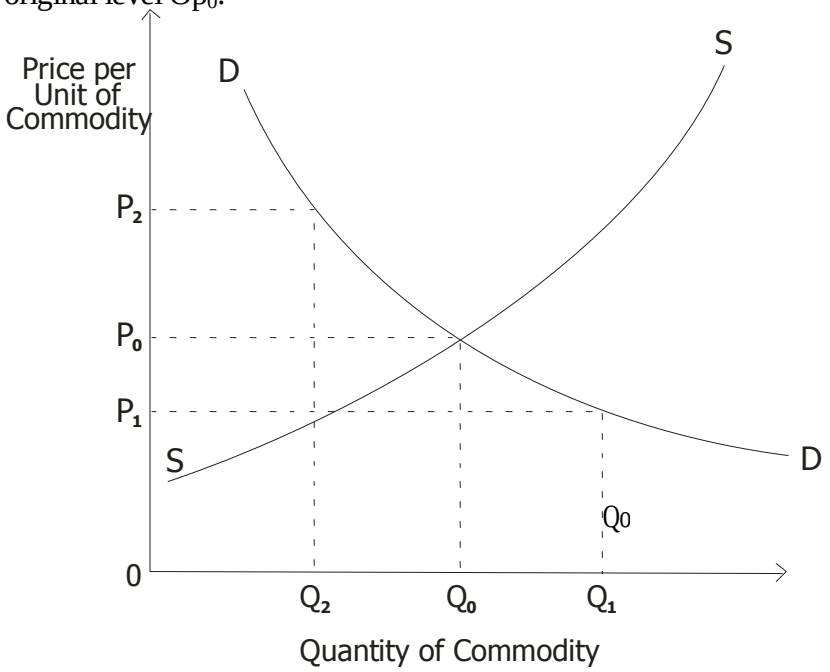

Figure 34: Illustration of buffer stock concept.

iii. Contract or Futures Sale

This is another method by which farmers can guard against the uncertainty of price fluctuations. This involves an agreement between a manufacturer, processor or contractor and a farmer or farmer's group to produce and deliver a specified grade and quantity of farm produce at an agreed price to the agribusiness firm at a stipulated future date. A contract of this nature has a number of advantages. Apart from helping to reduce variability in prices, the buyer could give precise information about his needs, thus the producer could more efficiently organize his resources to meet up the supply which assures him a guaranteed market. Secondly, the assurance of a market enables the producer take advantage of economies of scale in production which leads to lower unit cost of production and consequently of the product to the consumers.

The contract price varies according to the terms of the contract. It could be the ruling market price at the time of delivery or a price agreed at the time of signing the contract which may be fixed for a period of time, In recent times, selling by contract is becoming very important in Nigeria as

manufacturers and processors look more towards the domestic agricultural base for the sourcing of their raw materials.

4.0 Self Assessment Exercise

Explain how the buffer stock works by using a diagram.

5.0 Conclusion

In this unit you have learnt the measures for reducing price and income variations.

6.0 Summary

In this unit you have learnt that the measures for reducing price variations are price control, output control and future or contact sales.

7.0 **Tutor- Marked Assignments**

1. Discuss two ways in which agricultural price fluctuation could be minimized.
2. What is the advantage of contract and future sale? .

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Dahl, C.D. and T.W. Hammond (1977). Marketing and Prce Analysis: The Agricultural Industry. McGraw- Hills Book Co. New York, Chapters.

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UNIT 3 EMPIRICAL PRICE ANALYSIS.

1.0 Introduction

Empirical price analysis deals with the calculation of index numbers and parity prices. These indices are useful for assessing how much the price of a certain good has changed over the years whether it is better or worse off.

2.0 Objectives

By the end of this unit you will be able to calculate index numbers.

3.0 Main Body

3.1 Index Numbers

These are ratios or weighted averages used to measure changes in agricultural product prices over time. There are two types of index numbers namely (A) Price relatives sometimes called simple index number and (B) Ordinary index number.

3.2 **Price relatives**

Price Relatives is used in the analysis of a single product, while the index number is used to measure changes for a group of products.

Table 13: Average yearly wholesales prices in Zaria market N/kg, 1971-1989

Year	Produce* ML	SG	CP	GN	RC	WH	MZ	GR
1971	0.07	0.08	0.23	0.07		Not available		
1972	0.08	0.08	0.27	0.08		Not available		
1973	0.13	0.12	0.24	0.12	0.27	0.23	0.10	0.12
1974	0.13	0.13	0.36	0.20	0.35	0.24	0.13	0.12
1975	0.14	0.12	0.27	0.23	0.39	0.27	0.14	0.13
1976	0.17	0.17	0.27	0.39	0.53	0.23	0.19	0.25
1977	0.24	0.23	0.39	0.41	0.60	0.30	0.29	0.37
1978	0.36	0.30	0.66	0.44	0.58	0.40	0.30	0.48
1979	0.30	0.24	0.45	0.48	0.56	0.30	0.27	0.34
1980	0.29	0.24	0.56	0.62	0.85	0.31	0.29	0.43
1981	0.46	0.42	0.00	0.58	1.10	0.43	0.39	0.97
1982	0.45	0.36	1.01	0.65	0.96	0.42	0.28	0.83
1983	0.40	0.35	1.03	1.05	1.1.0	0.48	0.38	0.95
1984	0.96	0.85	1.94	1.92	3.17	0.85	0.85	1.10
1985	0.99	0.76	2.02	1.92	2.03	0.73	0.69	0.81
1986	0.49	0.44	1.83	2.28	2.09	0.78	0.46	0.66
1987	0.50	0.45	2.30	2.46	2.27	1.27	0.42	0.81
1988	1.39	1.36	3.86	3.18	3.86	3.35	1.32	1.90
1989	1.43	1.27	4.12	5.14	5.19	3.77	1.36	1.91

*ML= Millet WH=Wheat SG=sorghum
MZ= Maize CP=Cowpea GR=Garri
GN=Rice

Source: Forming Systems Research Programme Annual Market Survey, Institute for Agricultural Research, Samaru.

Table 14: Price relatives for cowpea

Year	1983	1984	1985	1986	1987	1988
Price (N/T)	1030	1940	2020	1830	2300	3860
Price Relative	100	188	196	178	223	375

Source: Price figures.

relative is given by:

$$P = \frac{P1}{P0} \times 100$$

Where P = price relative P_1 = price in a given year P_o = price in the base year.

The price relative gives an indication of how much the price of a commodity in a given year has changed over that of the base year. In Table 14, the nominal price of the commodity in 1987 was 12300 per tonne; the price relative was 223, which means that the price of the commodity in 1987 was 123% higher than its price in the base year (1983). If the price relative is less than 100, it means that the price of the commodity has fallen in the given year compared to the price in the base year.

3.3 Ordinary index number

This is used to compare prices of a group of related products. For example, if we want to know how prices of farm products as a group have changed over a number of years, we first of all have to add up or average the prices of the different products into a single figure for each year.

This single figure is called an index number. The two related approaches used in computing index numbers are:

i. The ratio of aggregates

ii. The average of relatives.

3.3.1 Ratio of aggregates

In using this method to calculate index number, prices of different products are added up each year and the sum is divided by the sum of the prices in the base year.

$$P=\frac{\sum P1}{\sum P0}$$

Where P = Price index

P_1 = Prices of products in a given year

P_0 = Prices of the products in the base year

$\sum$ = Summation symbol.

This simple formula gives all products equal weight but in reality it is important to give each product its proper weight commensurate with its importance. In doing this the product price has to be multiplied by the quantity sold. Two formulae that are commonly used in computing index numbers are:

i. Laspeyres formula and

ii. Paashe formula

(i) Laspeyres formula makes use of the quantity sold in the base year. It is given by:

$$P=\frac{\sum P1q0}{\sum P0q0}$$

Where

P = index number

P_0 = Price in the base year

P_1 = Price in a given year

q_0 = quantity sold in the base year.

(ii) Paashe formula makes use of the quantity sold in the given year for weightage. It is given by:

$$P=\frac{\sum P1q1}{\sum P0q1}$$

Table 15 gives some data for computing the ratio of aggregates.

Table 15 : Data for computing index number ratio of aggregate method

Product	Price (N/kg)		Quantity	Weighted Price		Quantity	Weighted Price	
	P_0	P_1	(Q_0)	P_0q_1	q_1 P_0	(Q_1)	P_0 q_1	P_1 q_1
Wheat	3.35	3.77	2	6.70	7.54	4	13.40	15.08
Rice	3.86	5.19	3	11.58	15.57	5	19.30	25.95
Sum	-	-	-	18.28	23.11	-	32.70	41.03

Source: Price figures are from Table 13 while the q_0 and q_0 are hypothetical figures.

Using Laspyres formula we have:

$$P = \frac{23.11}{18.28} \times 100 = 126.42$$

The above example implies that the general prices of these products increased in the given year by 26.42% over those of the base year. Using Paashe formula we have:

$$P = \frac{41.03}{32.70} \times 100 = 125.$$

This means that in general, prices of the products increased by 25.47% over the base year.

3.3.2 Average of Relative

This approach relates changes in the prices of the commodities between the base year and the given year. For example, in Table 15 the relative change in the price of wheat is

$\frac{3.77}{3.35} = 1.13$ and for rice it is $\frac{5.19}{3.86} = 1.34$

The **formula is given by:**

$$P = \frac{\sum P1q0}{\sum P0q0}$$

3.4 Uses of Index Numbers

Index numbers are used for a number of purposes.

a. It enables comparison of welfare for two different periods of time for individuals or groups. This is done by looking at whether prices have increased or fallen over the period of time under comparison.

b. It makes it possible for prices and quantities of commodities sold to be compared over time for a group of commodities.

c. It is used in computing appropriate prices for commodities in a situation where price is fixed or where price control or price support is practiced.

3.5 Parity Price

Parity price is a concept that is more popular in the developed countries especially U.S.A. where the government shows a lot of concern about the purchasing power of the farmers. It is the price which is necessary to give farm products the same purchasing power per unit for goods and services used in both production and family consumption relative to prices that prevailed in the base year. In other words, parity prices are prices computed for agricultural commodities that farmers sell which would give them the same purchasing power that prevailed in the base year.

The aim of parity price is to come up with a price such that the purchasing power and standard of living of farmers do not fall relative to prices received in the base year.

$$PP = \frac{Average\ price\ of\ all\ commodity\ in\ most\ recent\ 10\ years}{Average\ index\ of\ all\ prices\ received\ in\ most\ recent\ 10\ years} \times Current\ index\ of\ prices\ paid.$$

4.0 Self Assessment Exercise

Given the table under tutor-marked assignment below calculate 1)Price relative 2) Ratio of aggregates 3) Average relative

5.0 Conclusion

In this unit you have learnt how to calculate index numbers.

6.0 Summary

In this unit you have learnt how to calculate index numbers such as:

- Price relatives
- Ratio aggregates
- Laspeyres index
- Paashe index
- Average relatives
- Parity price

7.0 Tutor- Marked Assignments

1.If you are told that the price index for a certain farm product is 85 and 120 in1980 and 1986 respectively, how would you interpret that?

2. Given the following data calculate the index using (I) Paashe formula and (L) Laspeyres formula.

Product	Price base year ('000 naira per tonne) : P_0	Price five years later('000 naira per tonne) : P_1	Quantity in base year: q_0	Quantity five years later: q_1
Banana	6.70	7.54	4 million tonnes	8 million tones
Pinapple	7.72	10.38	6 million tonnes	10 million tonnes

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Module 10 International Trade

UNIT 1 BASIS FOR INTERNATIONAL TRADE

1.0 introduction

It is often said that no country can live in isolation as one country depends on another for certain reasons. International trading is one of the ways nations meet the needs of their citizens. In this module you will learn what forms the basis for international trade.

2.0 Objectives

By the end of this unit you have learnt about:

- Basis for international trade
- Advantages of international trade
- Terms of trade and exchange
- Assumptions of international trade

3.0 Main Body

3.1Basis for International Trade

The Nigerian agricultural sector has played a leading role in foreign trade for a long time. Nigeria has been a major exporter of agricultural products such as cocoa beans, rubber, groundnut and cotton since the colonial period. The country has also been importing such commodities as wheat, rice, maize, cars and electronics from the United States of America, Western European countries and some Asian countries. The structure of our imports has changed since 1986 following the ban imposed on the importation of food grains such as wheat, rice and maize. **Tables 16 and 17** show the share of the various components of our imports and exports from 1986 to 1988.

Table 16: Imports of major commodities by sector (N millions)

Section	1986	1987	1 988
Food and live Animals	802.1	1,873.9	1,958.5
Beverages and Tobacco	14.5	30.8	86.0
Crude Materials	193.9	799.7	667.0
Mineral Fuels	42.2	76.5	254. 6
Animal vegetable oils and fats	124.8	65.8	82.7
Chemicals	1,039.0	3,016.6	4,838.0
Manufactured goods	1,237.1	4,484.8	5,650.2
Machinery and transport equipment	2,227.8	6,828.1	10,282.5
Miscellaneous manufactured articles	246.2	680.2	1,080.2
Miscellaneous transactions unclassified	6.0	5.3	10.7
Total	5,983.6	17,861.7	24,910.4

Source: Central Bank of Nigeria Annual Report and Statement of Account, 1988

International trade is defined as trade between different countries of the world. Where it is between two countries, it is called bilateral trade and where more than two countries are involved, it is called multilateral trade.

International trade came about as a result of differences in the structure of demand and resource endowment of different countries. On the demand side, a country may be able to produce a particular good but not in the quantity it requires. For example, Nigeria is able to produce some quantities of wheat but definitely not enough to meet the demand for the produce. In the same manner U.S.A. is a net importer of oil, even though U.S.A. has oil deposits.

On the supply side, some countries are better at producing some particular goods and services than others. The advantages they possess for the production of these goods and services cannot be easily transferred.

Factors of production are not evenly distributed throughout the world. For example, a country may have abundance of fertile land, while another is blessed with skilled manpower. Various resources of capital, mineral deposits, skilled and unskilled labour, tropical and temperate climate are factors possessed by different countries at different levels. Therefore there is the need for different countries to specialize in the production of those goods and services for which they have the greatest comparative advantage. For example, European countries lack the tropical climate needed for the production of spices, tea, banana, plantain, cocoa, oil palm produce etc. Therefore they have to rely on tropical countries of Africa and Asia to supply them these items while they in turn specialize in the production of manufactured goods such as automobiles, aircrafts, electronics etc which the other counties do not have the skilled labour and capital to produce.

Since it is difficult to transfer these factors of production from one country to another the alternative is to move the goods and services produced by these factors. Provided the terms of trade are appropriate, this results in countries specializing in the production of these goods and services for which they have the greatest comparative advantage and exchange them for the goods of other countries. Thus international trade gives rise to international specialization.

Table 17: Export of major commodities by economic sector

Commodity	Values (N million)		
	1986	1987	1988
Major agricultural products (including)			
forest products): (A)	407.38	1,588.5	3,029.6
Cocoa	370.7	1,479.8	2,367. 0
Palm kernel	7.5	30.2	102.6
Rubber (natural)	29.1	60.5	290.0
Timber	-	-	-
Groundnut	0.08	-	-
Mineral products (petroleum): (B)	8,368.4	28,208.6	29,292.7
Manufactures & and Semi Manufacturers of			
Agricultural products:©	54.2	61.5	85.9
Cocoa Butter	44.8	53.7	85 9
Cocoa Powder	1.9	5.4	n.a
Cocoa Cake	7.5	2.4	n.a
Tin Metal: (D)	1.3	30.2	8.7
Other exports: (E)	89.2	471.8	721.2
Total domestic Export			
(A+B + C + D + E)	8,920.48	30,360.6	33,138.1

n.a. = not available
Source: Central Bank of Nigeria Annual Report and Statement of Accounts, 1988.

3.2 The Advantages of International Trade

1. It enhances International specialization

Specialization leads to increase in output and reduces the unit cost of production. Therefore specialization by countries has the potential of improving the standard of living for all the countries,

2. Widens scope of product consumption

International trade gives a country the opportunity to enjoy trig goods and services which she is unable to produce or which she can not produce in sufficient quantities. For example, we are able to ride cars, use aero planes, trains, telephones, and computer services in Nigeria. as a result of international trade. Similarly, countries like Ghana and Niger Republic for instance, are able to buy petroleum products for their automobiles as a result of international trade.

3. *Widens the scope of the market*

As a result of international trade, there is a wider scope of market for every product. Thus international trade enables the benefits of large scale production to be fully exploited.

4. Increases competition

International trade increases competition and thereby promotes efficiency in production. Where there is free trade, a monopolistic market structure cannot exist as goods have to flow in from other countries to compete with local firms that would have enjoyed monopoly power.

5. *It promotes international relations.*

International trade fosters friendship and cooperation between countries. For example, the EEC countries are more united and enjoy a greater degree of cooperation because of the common market they share. Likewise the ECOWAS countries have more political and economic cooperation as a result of the common market in which they participate.

3.3 The Terms of Trade and Exchange Rate

The term of trade is the rate at which a country exchanges its exports for imports. It is therefore the ratio of a country's export to imports. The terms of trade is determined by the conditions of demand and supply (that is real market forces) and the currency exchange rate.

When we export cocoa, rubber or palm produce, it is ultimately paid for in naira and not in U.S. dollar or pound sterling. Thus the exchange rate (the price of a country's currency in terms of another's) is important to enable us understand the price paid by the importer and received by the exporters. Basically the exchange rate reflects the relative demand for exports and imports. Thus the fall in the exchange rate of the naira in the late 1980s is partly a reflection of Nigeria's over dependence on imports. If a country's imports rise relative to her exports, the exchange rate of her currency tends to fall. Conversely, if a country's exports rise relative to her imports, the exchange rate of the country's currency tends to rise.

The rise in exports in Nigeria between 1986 and 1988 shown in Table 17 is due largely to the fall in the exchange rate of the naira. Thus our products were cheaper in the currencies of the importing countries than they otherwise would have been.

3.4 Assumptions of International Trade

The following are the basic assumptions which are necessary for the

gains of international trade to be fully realized.

i. The existence of perfect competition

ii. There should be full employment in ail the countries.

iii. The absence of currency restrictions.

iv. Trade should be free from artificial restrictions such as tariffs and quotas,

v. That no cost of transportation is involved.

4.0 Self Assessment Exercise

Explain what you understand by “Terms of Trade and Exchange”.

5.0 Conclusion

In this unit you have learnt about basis for international trade, its advantages, terms of trade and exchange and the assumptions of international trade.

6.0 Summary

In this unit you have learnt that:

- International trade is defined as trade between different countries of the world.
- Factors of production are not evenly distributed throughout the world and since it is difficult to transfer these factors of production from one country to another the alternative is to move the goods and services produced by these factors.
- It therefore makes countries to specialize in the production of these goods and services for which they have the greatest comparative advantage and exchange them for the goods of other countries. Thus international trade gives rise to international specialization
- The advantages of international trade are:

✓ *enhancement of international specialization*

✓ *Widening of scope of product consumption*

✓ *Widens the scope of the market*

✓ *Increasing competition*

✓ *promoting international relations.*

- The term of trade is the rate at which a country exchanges its exports for imports
- The existence of perfect competition demands that:

✓ There should be full employment in ail the countries.

✓ There should be absence of currency restrictions.

✓ There should be trade should be free from artificial restrictions such as tariffs and quotas and

✓ There should be no cost of transportation involved.

7.0 Tutor- Marked Assignment

1. Why is it necessary for a country to engage in international trade?
2. Discuss the basic assumptions underlying international trade.

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UNIT 2 FREE TRADE VERSUS PROTECTION

1.0 Introduction

In the previous unit you learnt about the advantages of unrestricted international trade. However, despite these advantages all countries use various means to protect their economies. In this unit you will learn why countries protect their economies.

2.0 Objectives

By the end of this unit you would be able to:

- Explain economic justifications for countries protect their economies
- Explain non- economic justifications for countries protect their economies
- Explain the methods used by countries to protect their economies

3.0 Main Body

3.1 Justifications for protection of economies

There are both economic and non-economic reasons for protecting an economy against free trade. In general, trade is controlled because governments think and act nationally rather than internationally. Although people of the world as a whole lose when trade is restricted, those of a particular country may gain.

3.1.1 Economic Justification

(a) To improve the terms of trade:

A country could impose heavy tax on imports to discourage consumption of imported goods. If the demand for such goods is elastic, imposition of tax will cause the demand to fall consequently leading to improvement in the balance of trade.

(b) To protect an infant industry:

It is important to protect an industry in its infancy to enable it survive excessive competition from well established competitors which are already producing on a large scale. The argument often advanced is that the guaranteed home market will enable it to overcome its teething problems and with time the industry will be strong enough to compete on the same terms with the rest of the world. The disadvantage of this is that an industry once protected will like to continue to enjoy protection. This could lead to inefficient use of resources and the production of inferior goods. For example, the automobile tyre industry in Nigeria has enjoyed protection for many years and still enjoys protection, but the quality of their product for a long time could not compete with the imported tyres.

(c) To enable an industry to overcome shock:

Fundamental changes in the demand for goods produced by an industry could adversely affect the life of the industry. If such an industry is protected, it will have more time to overcome the shock. For example, the demand for Nigerian made shoes declined in the early 1980s. If these industries were not protected they could have collapsed. Protection gave them more time to adjust.

(d) To pre vent dumping:

Goods may be sold abroad at a lower price than on the home market.

This may be possible in the following cases:

Where producers are given export subsidies.

Where discriminating monopoly is possible, and

Where the producers are able to take advantage of economies of scale.

(e) To stimulate domestic employment:

During periods of global economic recession, national governments often place restrictions on imported goods in order to ensure that the available income is spent on home-made goods, thus creating more employment at home.

(f) To regulate consumption of harmful goods:

The government often places restrictions on the importation of goods considered to be harmful to the health of her citizens. For example most government place heavy tariffs on tobacco, alcohol and spirits. The aim of the high tariff is to discourage the consumption of those goods.

3.1.2 Non-Economic Arguments

(a) To encourage the production of goods of strategic importance

Certain goods are of strategic importance and need to be produce n a country at all cost. Production of defense weapons such as arms and ammunitions need to be done locally because reliance on other countries to supply these goods is a security risk, This is probably one of the reasons why the Nigerian Air Force went into the assembly of Air Beetle Aircraft for the training of its personnel, Staple food products come under these strategic goods. A country should strive to be self-sufficient in the production of its staple food items. Over reliance on imports as a source of supply of basic food items is risky as it could be used as a weapon against that country during periods of war.

(b) To foster closer political ties:

In 1932, the United Kingdom imposed tariffs on many imports in order to give preferential rates to the Commonwealth countries, ECOWAS countries could impose tariffs on goods produced outside the sub-region in order to promote trade between the ECOWAS countries and to strengthen the ties between them.

(c) To prosecute political objectives:

Trade has been used as a weapon of foreign policy. For example, the USA withheld wheat exports to the USSR after the occupation of Afghanistan. The economic sanctions imposed on South Africa have gone a long way towards dismantling apartheid in that country.

(d) To promote social policies:

Subsidies enjoyed in the agricultural sector are not only for the strategic production of food but also to redistribute income and to assist the rural poor whose occupation is mainly agriculture.

3.2 Methods of Controlling International Trade

A number of measures are adopted by different countries to regulate the flow of free trade, the most common ones are discussed below:

1. Customs duties:

This is a form of tax paid on imported goods as it arrives in a port or approved station. Customs duties may be imposed to raise revenue. They are easy to collect and since they are usually levied on goods they do not distort trade deal.

Under the Structural Adjustment Programme (SAP) in Nigeria, customs duties were used to discourage the consumption of foreign made goods. This was done by adjusting the rate of tariff on the affected goods from time to time as the need arose.

2. Subsidies:

The government sometimes gives subsidy to producers of export goods. The aim is to lower the cost of production and to make a country's exports cheaper in the world market. A country that does this may most likely increase its exports leading to improvement in its balance of trade.

3. Quotas:

This involves pegging the quantity of imports to be allowed into a country over a period of time. In essence it implies limiting the supply of imports. Usually import license is used to stipulate the amount of goods to be imported into a country at a given time. The main problems with quota are:

i. As a result of the artificial shortage of supply, the price may be increased by the foreign supplier or by the importer. Hence unless the government also introduces price control, it is the importers who capture the gains and not the public.

ii. Quota leads to corruption as many importers play have to bribe their way to be issued with import licenses. When quotas were being used in Nigeria prior to 1986, it was grossly abused as some who claimed to be importers got the licenses but turned around to sell them to genuine importers at exorbitant prices. The imported goons were therefore much more expensive for consumers than otherwise.

4. *Exchange control:*

In this case the government regulates the foreign exchange that is made available for the importation of goods. All earnings of foreign currency have to be handed over to the government or its agent (the Central Bank of Nigeria), who alone can authorize withdrawals from this fund for the purpose of paying for imports, foreign travels, and capital movements. Nigeria has in the past used quota and exchange control to regulate the flow of foreign trade. Exchange control is effective in controlling the amount of foreign exchange made available for the purchase of foreign goods. The main disadvantage of this is that it encourages illegal trade in foreign currency as it creates scarcity of foreign exchange in the country.

5. *Physical Control:*

This involves placing an outright ban or embargo on the importation of certain goods. For example in 1986 there was a ban on the importation of food grains such as wheat, rice and maize into Nigeria. Therefore the country was forced to produce these grains at all cost in order to fill the gap. Similarly, strict regulations regarding the importation of live animals such as sheep, cattle, etc., imposes constraints on international trade.

6. *Export Control:*

This involves limiting the quantities or placing embargoes on export of certain goods in order to bring down domestic prices or as part of an agreement to prevent shipment to certain enemy countries.

7. *International Commodity Agreements:*

This is an undertaking between two or more countries involving both the exporting and importing sides, to do a variety of things. Usually there is some attempt to give longer term stability to a commodity market by specifying minimum and maximum quantities traded and minimum and maximum prices to be charged within the countries involved in the agreement.

4.0 Self Assessment Exercise

Do you support your country protecting its economy? Why or why not?

5.0 Conclusion

In this unit you have learnt about economic and non -economic reasons why countries protect their economies and the methods used to control international trade.

6.0 Summary

In this unit you have learnt that:

- A country will protect its economy for these economic reasons:

✓ *To improve the terms of trade*

- ✓ *To protect an infant industry*
- ✓ *To enable an industry to overcome shock*
- ✓ *To pre vent dumping*
- ✓ *To stimulate domestic employment*
- ✓ *To regulate consumption of harmful goods*

- A country will protect its economy for these non-economic reasons:

- ✓ *To encourage the production of goods of strategic importance*
- ✓ *To foster closer political ties*
- ✓ *To prosecute political objectives*
- ✓ *To promote social policies*

- Methods of controlling international trade are:

- ✓ *Customs duties*
- ✓ *Subsidies*
- ✓ Quotas
- ✓ *Exchange control*
- ✓ *Physical Control*
- ✓ *Export Control*
- ✓ *International Commodity Agreements:*

5.0 Self Assessment Exercise

Do you support your country protecting its economy? Why or why not?

6.0 Conclusion

In this unit you have learnt about economic and non -economic reasons why countries protect their economies and the methods used to control international

7.0 Tutor- Marked Assignment

1. Why should a country protect its economy?.
2. What are the methods used for restricting free trade?

8.0 References and Further Reading

Baker, M.J.(1975). *Marketing: An Introductory Text.* 2nd Edition The Macmillan Press Ltd ; London, Chapter 15.

Harvey. J. (1973) *Intermediate Economics.* 4th Edition, fvlacmillan Education Ltd., London, Chapter20.

Olukosi, J.O., S.U. Isitor and M. O. Ode (2012) Introduction to Agricultural Marketing: Principles and Applications. Living Books Series, GU Publications, Abuja FCT, Nigeria.

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Unit 3 COMMODITY EXCHANGE MARKET IN NIGERIA

1.0 Introduction

One important and interesting trend in international marketing is the commodity exchange market. This unit describes what it is and its history. Another aspect you will learn is about the World Trade Organization (WTOT).

2.0 Objectives

By the end of this unit you will be to explain what the commodity exchange is, state its history and narrate what the World Trade Organization is all about.

3.0 Main Body

3.1 History of Commodity Exchange in Nigeria

Early attempts to formalize produce marketing in Nigeria can be traced to the 1930s when companies such as United Africa Company. Peterson Zochonis (PZ) and John Holt were involved in direct purchases and export of Nigeria's major agricultural commodities considered as essential raw materials for overseas industries.

However, government's involvement in organized commodity marketing dates back to the Second World War when the West African Produce Control Board was established to stabilize commodity prices, Produce marketing in Nigeria falls into two broad categories, domestic trade in food items that has always been handled mainly by private operators, and the marketing of cash crops, which until 1986 was handled by Commodity Boards, which were monopoly public institutions.

The conversion of the Abuja Stock Exchange to Commodity Exchange was expected to give impetus to the promotion of non-oil exports.

The Commodity Exchange was meant to assist the Federal Government in its drive to expand the horizon and contribution of Nigeria's non-oil exports to the national coffers. This was to be made possible through the internationalization and standardization of Nigeria's tradable commodities such as cocoa, sugar, cereals, rubber and cotton including non-ferrous metals

3.2 What is commodity exchange market?

A commodity exchange can be defined as a place where buyers and sellers can trade (market) their commodities. Anyone who deals in commodities can make use of the exchange. Some of these commodities are agricultural commodities like coffee groundnuts cocoa or maize while minerals like silver, gold and other precious stones, gas and currency can also be traded.

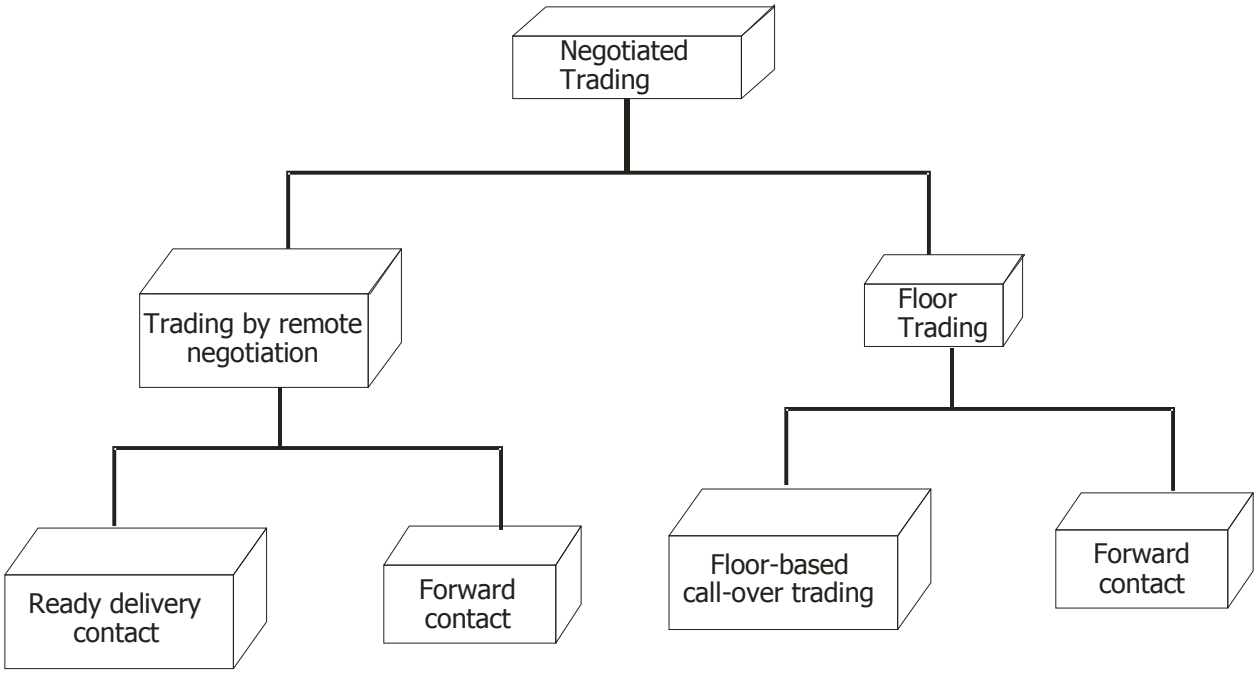
A commodity exchange market is similar to stock exchange; therefore a farmer or trader cannot go directly to the commodity exchange to transact business. Such business is usually transacted through a specialist called a Commodity Broker. He will inform the broker whether he wants to buy or sell and the quality and quantity involved, then the broker will go to the exchange to find him either a seller or a buyer for his commodity. The remuneration that is paid to the broker is a commission on the transaction. In Nigeria, the Abuja Securities and Commodity Exchange is the first to be established and it operates under the supervision of the Federal Ministry of Commerce.

3.3 Spot Market

This is where commodities are sold on spot and prices change by the minute. There are, however, two ways through which trading takes place on the spot market. One is through remote negotiation; which implies that one needs not travel to the exchange market to trade, Trading can be done through the telephone, e-mail, telex or even fax. One is only required to phone the exchange to inform them what one wants to sell or buy, the quantity and quality, the commodity package and where the delivery will be done. The exchange will then contact other members by putting the information on the website, so that whosoever sees it and is interested will contact the exchange.

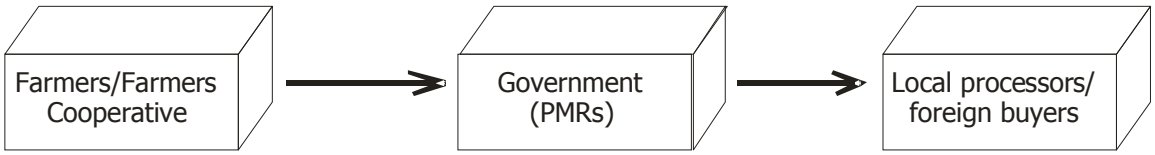
The second way of trading is called floor based trading, This method requires that one goes to the exchange to buy or sell his/her commodities. And to avoid cheating, the practice in the Nigerian commodity exchange is for both the seller and buyer to deposit 5% of the money of the goods before the commencement of trading. The 5% is refundable when the transaction has been effected.

Spot Market Model

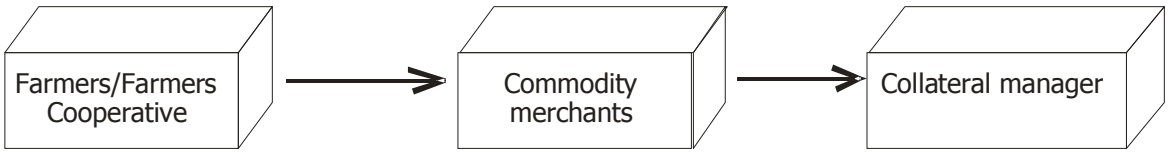


Commodity trade transaction flow

Pre-independence - 1986



1986 - date



From 2006 onward

COMMEX

3.3.1 How the Farmers Trade on the Spot Market

The farmers and Agricultural Co-operatives who desire to transact business on the exchange must register with a commodity broker, who will trade on their behalf. Where there are compelling reasons for the farmer or the co-operatives to trade directly the exchange can grant access provided some strict conditions of the exchange are met,

3.3.2 Policy Auction

This is a system by which government assists farmers and commodity merchants to sell food crops to government so that these groups can make reasonable money when crops are surplus in the market and the price of crops is low.

3.4 World Trade Organization and Agriculture in Developing Countries

The Uruguay Round agreement that was signed in April 1994 and became effective in 1995, established the World Trade Organization (WTO) to replace the 47 year old General Agreement on Tariffs and Trade (GATT). It is intended to oversee the trade agreements and settle trade disputes. The three major provisions of the accord, from the perspectives of developing nations were:

* Developed countries will cut tariffs on manufacturers by an average of 40% in five equal annual reductions.

* Trade in agricultural products will come under the authority of the WTO and be progressively liberalized.

* For textiles and wearing apparels, tariffs on textile imports will be reduced only to an average of 12% - three times the average level of tariffs on other UDC imports.

Agriculture is the main stay of most people in developing countries. Some accounts put the number at about 80% of the entire population in these developing countries. Agriculture is therefore centered on poverty reduction in sub-Saharan Africa, Bangladesh, China, India, etc

Most of the poor people are concentrated in rural areas and depend on agriculture. The experience of developing countries with trade liberalization has, however, been very disappointing, Adequate tariff justification especially in the agricultural sector is justified for a number of reasons.

(1) The means and capacity to deal with issues of price instability though common to all WTO members, is grossly inadequate in developing countries.

(2) Majority of these developing countries do not have access to market based, complex mechanisms to deal with risks associated with agricultural production particularly prices which can be very volatile.

(3) Some of these countries lack the financial capacity to provide adequate subsidy to farmers.

Since these developing countries harbour a large population that is dependent on agricultural production for their livelihood, the only means of improving their living standards is to devise strategies that will protect them from the various shocks such as volatile prices and natural disasters that can further limit production expansion.

4.0 Self Assessment Exercise

Explain the following:

a. Spot market
b. Policy auction

5.0 Conclusion

In this unit you have learnt about what the commodity exchange is and its history. You have also learnt about the World Trade Organization.

6.0 Summary

In this unit you have learnt the history of commodity exchange in Nigeria that:

- Early attempts to formalize produce marketing in Nigeria can be traced to the 1930s when United Africa Company. Peterson Zochonis (PZ) and John Holt were involved in direct purchases and export of Nigeria's major agricultural commodities as raw materials for overseas industries.

- Government's involvement in organized commodity marketing dates back to the Second World War when the West African Produce Control Board was established to stabilize commodity prices,

- The conversion of the Abuja Stock Exchange to Commodity Exchange was expected to give impetus to the promotion of non-oil exports.

You have also learnt that:

- A commodity exchange can be defined as a place where buyers and sellers can trade (market) their commodities.

- A commodity exchange market is similar to stock exchange; therefore a farmer or trader cannot go directly to the commodity exchange to transact business. Such business is usually transacted through a specialist called a Commodity Broker

You have also learnt about Spot Market that:

- It is where commodities are sold on spot and prices change by the minute. There are, however, two ways through which trading takes place on the spot market.

- The second way of trading is called floor based trading,

- The farmers and agricultural co-operatives who desire to transact business on the spot market must register with a commodity broker, who will trade on their behalf.

- There exists a system by which government assists farmers and commodity merchants to sell food crops to government so that these groups can make reasonable money when crops are surplus in the market and the price of crops is low.

You have also learnt that the World Trade Organization (WTO) born out of the Uruguay Round agreement which became effective in 1995 oversees the trade agreements and settles trade disputes.

7.0 Tutor-Marked Assignment

Write short notes on;

a. Commodity Exchange Market

b. World Trade Organization (WTO)

8.0 References and Further Reading

Baker, M.J.(1975). *Marketing: An Introductory Text.* 2nd Edition The Macmillan Press Ltd London, Chapter 15.

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UNIT 4 NIGERIAN ORGANIZATIONS AND INTERNATIONAL MARKETING

1.0 Introduction

Nigerian government has always encouraged Nigerians to go international because of this; they have set up agencies to encourage such activities There are so many agencies in Nigeria regulating export and import activities and equally on how foreigners will set up business in Nigeria. In this unit we examine these organizations that aid international business. Some of these agencies include Central Bank, Export-import Bank, Nigerian Export Promotion, Nigeria investment promotion council, among others.

2.0 Objectives

By the end of this unit you should be able to:

- Explain what Nigerian investment promotion council is and its contribution to international business.
- Explain the contribution of Nigeria export promotion council to boost export in Nigeria.
- Explain how Nigeria export processing zone scheme has been able to facilitate export and
- Explain the supervisory role of central bank in facilitating international business.

3.0 Main Body

3.1 Nigeria Organizations

There are so many organizations involved in regulating international business in Nigeria. NAFDAC, SON and other agencies assists in moderating business in Nigeria. Specifically, the organizations examined in this unit include:

- Nigeria investment promotion commission
- Nigeria export promotion council
- Nigeria export import bank.
- Nigeria export processing zone scheme
- Central bank of Nigeria

3.2 Nigeria Investment Promotion Commission (NIPC)

Deciding to invest in a country is never an easy task. It requires crucial information, research and planning. This led to the formation of the Nigerian Investment Promotion Commission (NIPC) in July 1995. The NIPC is an indispensable ally of potential foreign investors. The NIPC is tasked with overcoming the bureaucratic and institutional red tape that had previously discouraged foreign investors especially from taking advantage on Nigeria's wealth of opportunities.

Located in Nigeria's capital, Abuja, the NIPC building is open, modern and efficient-looking. A one-stop necessity for potential investors, it serves as a central investment approval agency, streamlining the activities of ministries, government departments and agencies involved with investment promotion. It helps in matters such as registration or incorporation of foreign enterprises, obtain expatriate quotas or find out specifics about the different tax regimes for sectors like cargo, oil or mining. It also serves as a catalyst for injecting the much-desired foreign capital into Nigerian economy through investments. It allows foreigners and local investors alike wishing to own up to 100% shares in investments in the country. It also encourages and promotes competition in the economy.

Functions: The NIPC performs the following functions:
• Advises government on policy issues related to investment.
• Guarantees the protection of foreign interests in Nigeria against expropriation.
• Administers appropriate incentives packages available to investors.
• Guarantees transferability of profits and other funds by investors.
• Initiates, organizes and participates in promotional activities such as trade fairs, exhibitions, workshops, conferences and seminars to simulate and attract investment.
• Identifies difficulties and problems encountered by investors, proffer solutions and render assistance to them.

Services

- Provides up-to-date information on investment opportunities available in the country.
- -Links foreign investors with local partner

- -Issues business permits to foreign investors.
- Coordinates the issuance of expatriate quota.
- -Negotiates in consultation with appropriate government agencies, specific incentive packages for investors.
- -Enters directly into bilateral agreement with investors for proposes of investment.
- Identifies specific project and invites interested investors to per take in them and more

3.3 Nigerian Export Promotion Council NEPC)

The Nigeria Export Promotion Council (NEPC) was established through the promulgation of the Nigerian Export Promotion Council Act No. 26 of 1976 and formally inaugurated in March 1977. This Act was amended by decree no. 72 of 1979 and further amended by the Nigeria Export Promotions) Decree no 41 of 1988 and complemented by the Export Promotion Miscellaneous Provisions Decree No. 18 of 1986.
Furthermore, the Nigerian Export Promotion Council Amendment Decree No 64 of 1992 was promulgated to enhance the performance of the Council by minimizing bureaucratic bottlenecks and increasing autonomy in dealing with members of the Organizing bureaucratic bottlenecks and increasing autonomy in dealing with members of the Organized Private Sector. The vision of NEPC is to make the non-oil export sector a significant contributor to Nigeria's GDP, while their vision is to facilitate opportunities for exporters to promote sustainable economic development.
The Nigerian Export promotion council (NEPC) is the federal Agency charged with the responsibility of developing, diversifying and promoting non- oil export product in foreign markets. Alder has been engaged to oversee and implement the marketing of the Council local and internationally. Preliminary research indicated that the entity had no brand standards and there was little awareness of its role in the market. Furthermore, information about NEPC and the export sector in Nigeria was not easily accessible.

Export for Beginners: An exporter is someone who sells goods or services in a foreign market in order to make profit. Exporters can be classified into the following categories. Export Merchant: - An exporter who buys goods or products for export from manufacturers and producers within the country. Manufacturing Exporter: - A company which apart from manufacturing certain products is also exporting the product. **Getting Started:** Registration with NEPC: The firm which wishes to export has to be registered either as a corporate body or a cooperative society with the Nigerian Export Promotion Council. The NEPC is the Federal Agency charged with the responsibility of promoting export of made-in-Nigeria goods. NEPC is also responsible for the registration of new entrants into the exporting business. The relevant application forms which can be contained at zonal offices is to be duly completed and returned to NEPC offices accompanied with the following documents.
- Copy of certificate of incorporation/Evidence of registration (applicable to co-operative societies)
- Memorandum and articles of association
- Certified true copy of Form C.O.7 (particulars f directors of the Company)
- Copy of current tax clearance certificate.

Registration takes approximately two weeks after submission of all required documents. The exporter is then issued with a certificate inscribed with a code number. Renewal of registration with NEPC as an exporter is compulsory every two years. It can be done by submitting the following documents:
- Current company tax clearance certificate
- Evidence of export performance within the two years
- Certified true copy of Form C.O.7.

It regulate regulates goods to be exported out of the country and these goods have to be duly registered by the National Agency for Drug Administration and Control (NAFDAC) and the Standards Organization of Nigeria (.S.O.N). In order to register a regulated product at NAFDAC, the prospective exporter writes to the Director General of NAFDAC, an application accompanied with the stipulated fees per consignment of intended export attaching the following documents:
- Evidence of registration of the regulated product with NAFDAC
- Registration certificate granted by NEPC

The following details of the goods should also be provided:
- Batch Numbers
- Date of Manufacture
- Expiry date or best before date
- Destination of intended export
- Certificate of analysis of the product batch by batch
- Name and full address of the Manufacturer.

The Agency issues an export certificate if:
- Establishment maintains the standard requirements of goods manufacturing practice
- The regulated product passes NAFDAC laboratory tests.

Exporters of regulated products also have to contact the nearest Standards Organization of Nigeria (S.O.N) office and submit the following documents.
- Request for product certification
- Test report.

A product which falls into more than one regulated category will need application for each category. A product certificate is then issued which has a validity of three years from the date of issue. A list of regulated products can be obtained from the S.O.N website.

3.4 Nigerian Export Import Bank

The Nigerian Export-Import Bank (NEXIM) was established by Act 38 of 1991 as an Export Credit Agency (ECA) with a share capital of ₦500,000,000 (Five Hundred Million Naira) held equally by the Federal Government of Nigeria and the Central Bank of Nigeria. The Bank which replaced the Nigerian Export Credit Guarantee and Insurance Corporation earlier set up under Act 15 of 1988 has the following main statutory functions.
- Provision of export credit guarantee and export credit insurance facilities to its clients.
- Provision of credit in local currency of its clients in supports.
- Establishment and management of funds connected with exports.

- Maintenance of a foreign exchange revolving fund for lending to exports who need to import foreign inputs foreign to facilitate export production.
- Maintenance of a trade information system in support of export business.
- Provision of domestic credit insurance where such a facility is likely to assist exports.

The Bank presently provides short and medium term loans to Nigerian exporters. It also provides short-term guarantees for loans granted by Nigeria Banks to exporters as well as credit insurance against political and commercial risks in the event of non-payment by foreign buyers. The Bank is also the government's National Guarantor under the ECOWAS Inter-state Road Transit Programme. The Bank's authorized capital as at December 31 2006 was ₦50 billion with a fully paid-up portion amounting to ₦11 billion.

3.4.1 Products/Services of NEXIM Direct Lending Facility (DLF)

NEXIM lends money directly to Nigerian exporters to fund their purchase of capital goods, raw materials, packaging materials, and spare parts through the Direct Loans facility. The facility also covers the provision of infrastructure as well as revitalization and modernization of plants/machinery. Providers of export services in the areas of consultancy, tourism, oil and gas etc are also eligible for support. It is provided in both local and foreign currency. Typically, NEXIM advances the funds directly to the Nigerian exporter, and these funds are repaid within a maximum period of seven (7) years including a maximum period of two (2) years.

3.4.2 ECOWAS Intrastate Road Scheme ISRT)

The scheme is designed to promote free flow of goods among member states; free of duties; taxes and restrictions while in wasting escort system and check the diversion of goods consigned for a specific destination. NEXIM is the National guarantor for Nigeria under this scheme and is responsible to vary the risks. The risks covered include the diversion of goods within a country other than the country of destination, which would result in a loss of import duties/charges that could have been paid to the Customs authorities in the country the diversion occurs. This implies that the risk to be covered by NEXIM in Nigeria is the import duty accruable to the Nigeria Customs Service based on the invoice value of the transiting goods only and not on damage or loss of consignment.

3.4.3 Export Credit Grantee Facility (ECGF)

NEXIM's export credit guarantee facility is designed to protect Nigerian Banks against the risks of non-payment for loans or advances granted to exporters to meet short-term export contracts. Pre-and post – shipment guarantees are available under the facility for a period of 180 days. This facility does not cover the risks of non-payment resulting from any fraudulent act of the exporter or his agents and risk of non-payment resulting from the failure of the exporter to fulfill the terms of the export contract or negligence on his part. Other risks excluded include non-payment as a result of default of the exporter's agent or collecting banks as well as non-payment resulting from physical damage, which should normally be insured with commercial insurance companies.

3.4.4 Export Credit Insurance Facility (ECIF)

One of the major problems facing exporters is the non-payment for goods exported. Non-payment may result from the buyer's insolvency or other events outside the control of the exporters and the buyers. NEXIM's export credit insurance facility is designed to protect Nigerian exporters against the risks of non-payment for goods and services exported on credit terms as a result of commercial/political events. The facility covers both pre-and post-shipment risks for maximum period of 180 days. However the facility excludes the risks normally insured by commercial insurance companies or other government governments departments, foreign risks, insolvency or default of exporter's agent or collecting back and failure of the exporter to fulfill the terms of the contract or negligence on his part.

3.4.5 Export Trade Support Facility (ETSF)

Foreign Input Facility (FIF) This provides manufacturers of export products foreign currency loans to import capital equipment, packaging and raw materials to produce finished products for export. The facility has a maximum tenor of seven (7) years inclusive of a moratorium period of not more than two (2) years. It is repayable in foreign currency. Local Input Facility (LIF) This is a medium to long-term facility and is provided in local currency to enable exporters finance capital purchases and other activities that would require more than one year to repay. The facility has a maximum tenor of seven (70 years inclusive of the moratorium period of not more than two (2) years. NDE Facility (NDEF) This facility is designed to provide direct financial assistance to qualified Nigerian Graduates (The participants) to enable them undergo tutelage with established exporters under the Start-Your-Own-Business (SYOB) Programme, prior to their exporting eligible goods and services themselves. The objective being to create the required linkage for registered companies/cooperatives owned by jobless graduates to go through practical trainings and guidance with reputable exporters, who may in turn assist them in securing export contracts from overseas and/or outsource some aspects of their businesses to them.

3.4.6 National SESAME SEEDS Credit Facility (NSSEP)

This is available to provide necessary financial assistance to qualified registered companies under a special credit scheme for the exportation of Sesame seeds and to assist the target companies to directly access short-term pre-and post-shipment finance in support of export of Sesame seeds with a view to increasing the quantity as well as quality of Sesame Seeds exported from Nigeria annually.

3.4.7 Rediscounting and Refinancing Facility (RRF)

This helps banks to provide pre and post-shipment finance in local currency to support non-oil exports. The RRF gives exporters access to the Bank's export portfolios at preferential rates. The refinancing scheme provides a bank with credit of up to one year. Short-term pre-shipment credit of up to 120 days and post shipment credit of up to 60 days is provided under the rediscounting scheme.

3.4.8 Special Cassava Export Credit Facility (SCECF)

Following the establishment of the Presidential Initiative on Cassava Export Promotion by Mr. President in February 2004, NEXIM was selected as a key member of the Sub-Committee on Finance & Export Proceeds Repatriation and specifically requested to support the initiative. To this end, the Management of NEXIM considered and consented to the establishment of a Special Cassava Export Credit Facility to allow for direct disbursement of approved loans to qualified exporters of Cassava Products

3.4.9 Stocking Facility (SF)

This is provided in local currency and it enables manufacturers of exportable goods to procure adequate stocks of raw materials to keep their production at optimal levels. The Stocking Facility is available for up to one year and is granted at rates capable of enhancing the competitiveness of manufactured export.

3.4.10 Textile Revolving Fund (TRF)

This is provided in local currency and it enables manufacturers of exportable goods to procure adequate stocks of raw materials to keep their production at optimal levels. The Stocking Facility is available for up to one year and is granted at rates capable of enhancing the competitiveness of manufactured export.

3.5 Nigerian Export Processing Free Zone Scheme (EPFZS)

Since the inception of the new democratic administration led by President Olusegun Obasanjo in May 29 1999, a number of efforts have been made to attract both local and foreign investors to the country to boost Nigeria's economy. To point the country towards the path to industrialization will involve discipline, focus and hard work from all sectors to the economy. In this light, the diversification of the economy has led to de-emphasizing the role of oil production and exports within the country's economy. Much needed focus has thus been devoted to other sectors like solid minerals, tourism, telecommunication, commerce and industry. All these efforts toward economic development led in November 1991 to the establishment of the Export Processing Free Zone Scheme (EPFSZ). This scheme allows for interested persons to set up industries and business within demarcated zones known as Export Processing Zones, (EPZs) principally with the objective of exporting the goods and services manufactured or produced within the zones .But this novel scheme was slowed down by he political shenanigans in power then. It thus took another decade before it saw the light of the day with the inauguration by President Obasanjo of the multi-billion naira Calabar Export Processing Zone (CSPZ) very recently. In a nutshell, the scheme is targeted to promote the diversification of the export base of the nation through the acceleration of export business with attendant loaded incentives, this it is perceived will include industrial production, offshore banking, insurance and reinsurance, international stock, commodities and mercantile exchanges, commercial industrial research, agriculture and agro-allied industry, mineral processing, as well as international tourist resort development and operation. The Calabar zone has been designated as the primary EPZ territory and a total of 80 serviced plots have been reserved for prospective investors for self-built factories.

3.5.1Tax and other Incentives The incentives that come to inventors in the designated EPZ territories include:

- Tax holiday relief, legislative provisions pertaining to taxes
- Levies, duties and foreign exchange would not apply within EPZs repatriation of foreign capital investment in EPZs at any time capital appreciation of the investment.
- Unrestricted remittance of profits and dividends earned by foreign investors in EPZs.
- No import or export licenses required rent-free land during construction of premises.
- Up to 100% foreign ownership of enterprises in EPZs, sale of up to 25% of production permitted in domestic market.
- No quotas on products from Nigeria exported to the European Union, (EU) and the United States of America.
- Made-in Nigeria goods are entitled to preferential tariffs in the EU.

3.5.2 Grants Available for Exporter

The provision of the Industrial Development (Income Tax Relief) Act with respect to Pioneer Status qualifies for a tax holiday of 3-5 years to any manufacturing exporter who exports at least 50% of his annual production. Additional concessions are also available in the local raw material development, local value-added, labour-intensive or export-oriented activities that involve significant training.

Tax Relief on Interest Income Interest accruing form loans granted by banks in aid of export activities enjoys favorable tax treatment.

Capital Assets Depreciation Allowance The law in Nigeria provides an additional annual depreciation allowance of 5% on plants and machinery to manufacturing exporters who export at least 50% of their annual turnover provided that he product has at least 40% local raw material content or 35% value added.

Investment Protection Protection of property is provided by Section 31 of 1999 Nigeria's constitution. The section states: "No property or other rights will be taken over or compulsorily acquired except under a law which provides for adequate compensation and for a right of access for any claimant to the High Court of the relevant part of Nigeria for the determination of interest in the property and compensation amount."

Expropriation The Nigeria Investment Protection Commission Decree guarantees against nationalization, expropriation and compulsory purchase.

Disputes Settlement

Disputes between an investor and any government of the Nigerian Federation in this regard which cannot be amicably settled, may be submitted by an aggrieved party to arbitration in accordance with Nigeria's Arbitration and Conciliation Decree 1988 or within the framework of any bilateral or multilateral agreement on investment protection to which the Federal government and the investor's country are parties or in accordance with any other national or international machinery for the settlement of investment disputes as agreed to by the parties. Nigeria's general legal environmental, which is based on English common law, further upholds the sanctity of contracts and the rule of law. The scheme operates in a fashion that cuts off the bureaucratic delay that is synonymous with government agencies by allowing the Nigerian Export Processing Zones Authority (NEPZA) to administer, manage, control and coordinate the quick approvals for participating foreign investors while its supporting agencies

handle almost all phrases of operations in the zone independent of government. These include issuing application forms and approval, company registration and construction licensing among others. To facilitate the operation of the Calabar EPZ, the Calabar seaport has been declared as a free port to complement the status of the free trade zone. Among the numerous facilities sited at the 152 hectare Calabar EPZ site, is a new port less than two kilometers away with fully buoyed river channel and an estimated capacity of about 1.5 metric tons of cargo excluding crude oil. Many investors are already eager to set base in Calabar and the Government has assured of the existence of several pre-built standard factories. Presently, only three companies are operating in the Calabar zone so there is plenty of room for new companies. It has been promised that the entire necessary infrastructure will be in place- the plots; roads, street lighting, perimeter fencing, electricity and water facilities and factory begin exporting. With a vast population that is rich in human potentials and abundant mineral resources, the success of the EPZs is almost certain from day one, though the elimination of the "Nigerian factor" must be a priority concern for the eventual growth of the scheme. Also, the establishment of other zones around the country is being considered in order for wider coverage and developmental impact. Kano and Lagos are veritable locations for such a project with the former catering the Trans-Sahara trade and latter focusing on export of manufacturing products. The prioritization of quality should not be sacrificed on the altar of quantity and strict monitoring regulations must be formulated to guide participating firms.

3.5.3 The Nigerian Export Processing Zones Scheme

The enabling law for the establishment and management of the Export Processing Zones (EPZ) scheme in Nigeria is the Nigerian Export Processing Zones Authority Decree No. 63 of 1992. By this decree, administration of the Nigerian EPZ programme is vested on the Nigerian Export Processing Zones Authority (NEPZA). NEPZA is thus, empowered to grant all requisite permits and approvals for operators in EPZs to the exclusion of all other government agencies and bodies. The regulatory regime for EPZs in Nigeria is liberal and provided a conducive environment for profitable operations. The incentives available to operators in Nigeria's EPZs compare favourably with the most attractive elsewhere in the world and are the best in the region. They include one hundred percent foreign ownership of investments, "one stop" approvals, no import or export licenses, duty free import of raw materials, unrestricted remittance of capital profits and dividends, tax holidays and no strikes. The country's pioneer EPZ is the Calabar Processing Zone.

3.5.4 Calabar Export processing Zone

The Calabar EPZ provides investors with one of the most suitable sites for export manufacture in Africa. The zone provides serviced industrial and administrative facilities at the most competitive rates obtainable for facilities of such standards in Africa. In addition to public supplies of such utilities as power, water and telecommunications, the zone has its won private back-up supply of these essential utilities and services. Calabar, the city in which the EPZ is sited, is an ancient and historic city with an enviable past, having served as the capital of the Southern Protectorate of Nigeria before the amalgamation of the Northern and Southern Protectorates in 1914. The serene and beautiful city served as the center of operations for the Royal Niger Company during the days of the oil palm trade as well as being an age – long center of leaning. It is presently the capital of Cross River State in south – east Nigeria and is fondly referred to as the 'Canaan City, the biblical land flowing with milk and honey.'

Although one is not likely to actually find milk and honey flowing on the streets of the streets of this clean, enchanting and alluring city, one will definitely discover the warmth and hospitality of the people of Calabar in abundance. There are other attributes, which make the choice of Calabar as the site of Nigeria's pioneer EPZ an excellent one. The city has good road links with other part of the country and is traversed by the Trans – African Highway, major gateway to republic Cameroon and other countries of Central Africa. Its modern seaport adjoining the EPZ is of special advantage and will result in significant savings for shipping and haulage services to investors in the Zone. The city's international airport less than twenty minutes drives from site of the Calabar EPZ.

Several airlines provide Calabar with international and local air travel services. ADC airlines is the major operator from Calabar Airport – operates daily domestic flights to and from Lagos and Harcourt, with connecting international flights to destinations in Africa. The airline also operates flights to Ghana, Liberia, Sierra Leon and Guinea. Nigeria Airways flies to Calabar en route to Equatorial Guinea and Cameroon. SkylineAirline offers daily service to and from Lagos and Enugu. Calabar and its environs have a pool of skilled and trainable manpower with significant industrial experience. Such manpower is available at very competitive rates, which rank among the lowest in the world. There is several institution of higher leaning in Calabar and its environs which provide university, Technical and Vocational education. If the need arises, these institutions can provide any special training needs and supports services that producers in the Zone may need industrial activity in Calabar is largely in natural resource- based industries such as oil Palm, Wood, Limestone, Rubber, Cocoa and Coffee. However activities in the oil and gas industry, especially the aluminum Smelting plant on near by ikot Abasi and the activities of Mobil producing Nigeria Unlimited, based in near

by Eket offer the prospect for linkages between manufactures in the Calabar EPZ and these industries. Moreover, the disposition of its people, its rich history, culture and several natural attractions make Calabar an idea tourist location. Attractions in Calabar and within surround Cross River state include the Abokim Water Falls, Qua Falls, and the Gorilla Sanctuary in the Kanyang National.

3.5.5 Facilities Within the Zone Facilities available under the Calabar EPZ are as follows: (a) Service plot; (b) Uninterrupted power and water supply; (c) Modern and efficient telecommunications system (d) Excellent internal road network; (e) Built-up Factory space (f) Modern catering and recreational facilities; (f) Banking services; and (g) Custom.

3.5.6 Industries Permitted Within the Zone Industries permitted within the Calabar EPZ are the following:

(a) Electrical and Electronic Product; (b) Textile Product; (c) Garments Production (d) Product and Handicrafts; (e) Leader Product; (f) Petroleum Product;(g) Rubber and plastic Products (h) Cosmetic and other chemical product; (i) Metal Product and Machinery (j) Educational Materials and Sport Equipment; (k) Printing Materials, Communication and office Equipment; (l) Medical Kits, Optical instruments and Appliances; (m) Biscuits, Confectionaries and other foods processing; and, (n) Pharmaceutical products. Proposals for industries outside the above listings will be considered on their individual merit.

3.5.7 Summary of Investment Procedure The following is a summary of procedures 7, which an investor will normally follow in establishing an industry under the Calabar EPZ. 1. Inquiries and obtaining Investment application g form. 2. Inspection of built-up factory space and serviced industrial plots 3. Submission of investment application form 4. Processing of application form 5. here application

is approved apply for company registration. 6. (a) Outright purchase of built-up standard factory: Payment purchase shall be made as follows:
- 10 percent of the purchase price within 3 months of execution of purchase agreement balance of 90 percent, 5 months after.

(b) Rent of built-up factory space: Rent shall be paid as follows:
- One year rent upon execution of rental agreement. Thereafter, rent shall be payable annually.

(c) Lease of built-up standard factory: Rent for the lease shall be paid in 3 payments as follows: - 40 percent of the rent payable for the lease on or before execution of lease thirty percent rent for the lease on or before the end of the 5th year of the lease 30% of the rent payable for the lease on or before the end of the 10th year of the lease (d) Lease of service plots: Rent from the lease shall be paid as follows: - 40 percent of the rent payable for the lease on or before approval of factory construction 30% cent of rent payable for the lease at the end of the 5th year of the lease.–30% of rent payable for the lease at the end of the 10th year of the lease. 7. Remittance of Investment Capital. 8) Assessment of Investment outlay. 9. Pre-production inspection of factory building, plant and machineries before commencement of production. 10) Obtain certificate to sell 25 percent of production in the domestic market. Conclusion of addition to all the above, Nigeria's continues commitment of the implementation of liberal economic policies that will enhance the development and growth of the export sector coupled with the Naira's favourable exchange rate for exports provided an excellent opportunity for profitable export production from the Calabar EPZ.

3.6 Central Bank of Nigeria

Central Banks worldwide simply refer to a central monetary authority or an apex financial institution within the entire financial structure promoting monetary stability and a sound financial system. The world Central Banking is one of a variety of structures, functions and powers, which are in them by-product of the economic, political and other realities prevailing in a society. Historically, prior to the establishment of Central Bank of Nigeria by the CBN Act of 1958, there existed a body known as the West African Currency Board (WACB). This Board, which was established by the then British Colonial Government, was intended to serve as a Central Bank for the Anglophone West African countries. Thus, the board was charged with the primary responsibility of issuing the West African Pound, which served as the legal tender currency in Ghana, Nigeria, Sierra-Leone and Gambia. Another function performed by WACB was the management of the reserves held in trust for these colonies. Such reserves were invested by the board on behalf of the West African countries as instruments in the London Money Market. The weakness of the board for which it was criticized is as follows:
- It carried on commercial banking activities alongside other commercial banks;
- The board lacked the basic apparatus to control the supply of money.
- The board got involved in physical distribution of currency from one point to another.
- Its activities were considered discriminatory against indigenous West African industrialist;
- It was not on the development of the colonies and most of its activities were based on commerce and trade.

3.6.1 Objectives

The principal objectives of the Bank as stipulated in the CBN Act 1958 are as follow:
a. The insurance of legal tender currency in Nigeria:

b. To maintain the external reserve and value of the legal tender in order to safeguard the international value of the currency.

c. To promote monetary stability and a sound financial system.

d. They serve as the banker and financial adviser the Federal Government.

e. Bankers to other banks within Nigeria and Abroad.

3.6.2 Functions

To achieve the above objectives, CBN undertakes the following functions as stated in the Act. The basic functions performed by CBN can be broadly categorized into three.
a. Traditional functions

b. Regulatory functions and

c. Development functions.

3.6.3 Traditional Functions

i. It issues the legal tender (currencies) Naira and Kobo.

ii. It acts as the Banker and financial adviser to the Federal Government.

iii. CBN act as the banker to other banks and finance institution. • Cheque Clearing

• Lender of last resort.

iv. It manages the accounts and debt of the country.
v. CBN act in banking supervision and examination.

3.6.4 Regulatory Functions

The regulatory functions of the CBN are mainly directed at the objective of promoting and maintaining the monetary and price stability in the economy. To perform this regulatory function CBN formulates policies to control the amount of money in circulation, control other banks and major players in the financial market, control rates of banks credits and therefore the supply of money in the economy. The instruments used by CBN to achieve these functions are:
a. Open Market Operation (O.M.O)
b. Bank Rate

c. Rediscount Rate

d. Direct Control of Bank's Liquidity

e. Direct Control of Bank Credit

f. Special Deposits

g. Moral Persuasion

h. Minimum Cash Ratio.

3.6.5 Developing Functions

The establishment of CBN in 1959 was premised on the need to promote and accelerate the much needed economic growth and development in Nigeria, which would invariably promote the growth of the financial market. This financial market comprises the Money and Capital market, assistance to development banks and institutions and the formulation and execution government economic policies. The Money Market is the market for mobilizing short-term funds with instruments such as Treasury Bills, Treasury Certificates, Commercial Papers, Certificate of Deposit (CDs), Eligible Development Stock (EDS) and Bankers' Acceptances. The CBN plays a major role in the Capital Market, which deals with long-term funds by fostering its growth through the annual subvention granted to them. The CBN also helps to promote and assist the development banks and institutions. These include Nigerian Industrial Development Bank (NIDB), the Nigerian Banks for Commerce and Industry (NBCI), the Nigerian Agricultural Insurance Company (NAIC), the Federal Mortgage Bank of Nigeria FMBN), the Nigerian Deposit Insurance Corporation (NDIC), the Nigerian Export-Import Bank (NEXIN) and the Securities and Exchange Commission. (SEC). In addition, the CBN is involved in the formulation and executive of viable economic polities and measures for the government. Also since 1970, the Bank has been instrumental in the promotion of wholly owned Nigerian enterprises. Thus, the recent directive to banks to set aside 10% of their profits before tax to finance Small and Medium Scale Enterprises can be viewed in this context.

3.6.6 Problems

The CBN is faced with a number of the problems in the Nigerian financial sector, among these problems are follows:

a. One of the failings of the CBN is their inability to guide against unethical actions of Commercial Banks in the areas of money laundering, inter bank forex exchange.

b. The CBN's inability to curb the current rising inflationary rates in the country.

c. Its lack of effective regulatory measures has led to high lending rates imposed by commercial banks on their customers.

d. It also lacks the capacity to effectively execute Government economic policies.

e. It fails to promote and encourage Nigerians to invest in Small and Medium-Scale Enterprises y not giving enough incentives.

f. Another problem faced by CBN is its inability to monitor the skyrocketing foreign exchange rate in the country.

g. CBN has been unable to promote the needed saving culture among Nigerians, which could have helped the nation's capital base.

h. Finally, the CBN has been unable to tap into the Information Technology super highway of e-banking and e-commerce, which is a major prerequisite for the country to partake in the globalization.

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3.6.7 Achievements, Vision & Mission of CBN

The Central Bank of Nigeria in its bid to curb banks unethical actions have periodically increased their capital base and have instituted the Inter-bank foreign exchange market to check capital flight and to regulate foreign exchange rates. CBN has also achieve a level of autonomy since the advent of the democratic dispensation in Nigeria, the is reflected in her aggressive execution of Government economic policies in the areas of orientating the Nigerian populace to embrace the saving culture, the encouragement of foreign investors by creating an enabling environment/policies for ensuring macroeconomic stability and stable governance.

We must also acknowledge the recent moves by the Central bank to tap into the limitless opportunity derivable in the Information Technology World. This is reflected in the massive promotion of Universal Banking in the country. The CBN took the bull by the horn by first starting a restructuring and reengineering project which is perceived to tackle the business processes in its structural and instructional deficiencies to enhance its effectiveness, efficiency and productivity. The Central Bank of Nigeria's restructuring and reengineering involves improve reorganization of the Bank's business processes with a view to making it more efficient and proactive. It also involves restructuring the assets and liabilities of the bank to promote efficiency, restore integrity and achieve cost effectiveness. To achieve this all important restricting & reengineering CBN embarked on a project code named "Project EAGLES". Project EAGLES is the approach CBN has adopted, recognizing the need to gear up its organisation and systems to address strategic issues, achieve a sharper focus on core functions and be an efficient regulator in the 21st century. Consequently, the vision of the CBN in the third millennium are summarized below: "To be one of the most efficient and effective among the world's central banks in promoting and sustaining economic development". Arising from the vision the restructuring/reengineering code named EAGLES stands for the following: Ø E = Efficiency Ø A = Accountability Ø G = Goal oriented Ø L= Leadership Ø E = Effectiveness Ø S = Staff oriented The mission of Central Bank of Nigeria arising from the vision ahs been captured as follows: To be proactive in providing a stable frame work for the economic development of Nigeria through transparent implementation of monetary policy an achievements efficient and effective price stability for a sound management of the financial system". The restructuring/reengineering framework adopted for Project EAGLES is the Performance Driven Change mythology (PDC). This method defines and review the performance measurement set for each business processes to be sure that process performance is appropriately measured. According to Chief Joseph Sanusi the Governor of CBN, the project, which kicked off two years ago, has completed its first phases. The governing board of CBN is satisfied so far. The second phase has also been launched. This project was embarked upon due to the need to change the entire structure of the CBN with a focus towards imbibing a strong culture change using modern information technology (IT) as a springboard.

The reengineering exercise according to the Governor is intended to radically alter the way things are presently done, that is work communication and relationship both within and 138

outside and bank, which means making significant technological changes that will pervade the whole CBN.

4.0 Self Assessment Exercise

1. Discuss five services available to international business man in EPZ.
2. Discuss the contributions of CBN to international business in Nigeria.

5.0 Conclusion

These organizations in no doubt have been able to encourage foreign business between Nigeria and other countries. It shows the contribution of Nigerian government in encouraging international business with incentive like tax holidays expropriation, investment protection and a lot of other incentives.

6.0 Summary

This unit discusses various types of Nigeria organizations. These include among others Nigerian Investment Promotion Commission; Nigerian Export Promotion Council; Nigerian Export Import Bank,; Nigerian Export Processing Zone scheme, the Central Bank of Nigeria,. Their contributions and functions to international marketing were discussed.

7.0 Tutor Marked Assignment

1. Discuss those services provided by NEXIM in assisting sesame and cassava exporters..

2 .Discuss the functions and services provided by NIPC to international business .

3. Enumerate the i) objectives ii) functions of CBN

80. References/Further Reading

National Open University of Nigeria (2009) International Marketing MKT 725 Course Material. Adapted.

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