

# Marketing of Produce in Rural Economy and Related Problems

Agricultural product marketing is very vital in the country because this sector contributes about 20 percent of the Gross Domestic Product (GDP). In early 1980s about 40 percent of the workers engaged in agriculture.

Agricultural commodity production is dominated by smallholders and most of the production units are less than one hectare. Therefore almost all the agricultural and pricing policies have been focused on this sector to achieve, the self-sufficiency, food security, enhancement of rural income, generation employment opportunities and protection of consumer welfare. Policy actions of pricing policies included subsidies for production and consumption, the operation of government procurement activities to ensure better prices to farmers, the introducing tariff policies to limit imports at lower prices.

The governments have introduced many pricing policies to enhance the rural income during the past. But the development of the agriculture sector or enhancement of rural economy was not seen. On the other hand both the rural and urban consumers were not benefited.

Considering the price behaviour of agricultural commodities, almost all the prices were highly correlated indicating the high integration between markets. The correlation coefficients of vegetable prices with Pettah to other retail markets are positive but less significant due to transport charges and wastage loss.

We have experienced a rapid growth in our urban population, expansion and changes in the structure of agricultural production, and changes in the modes of processing and transport of agricultural products. This has often required considerable modifications of the food distribution system. Earlier those systems had been oriented towards subsistence or local markets. Governments have gradually taken a stronger interest in food marketing to provide at least a minimum of food to low-income urban population and also to increase the rural income.

In the past, government involvement in agricultural marketing was largely focussed on export crops. During the last 50 years, a number of

governments have realized that the development of sufficient production of basic foods and their distribution for local consumption is of major importance in generating genuine economic development. Their policies have gradually begun to focus on efforts towards food self-sufficiency and the integration of basic food production into the market economy.

Rural farmers always complained about lower prices those are paid for their farm products. On the other hand consumers, especially in the Urban Sector, complained about the higher prices and the quality of the products. Hence to study

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the situation in this sector is very important to minimize the conflict between two sectors.

### Objectives

The main objectives of this article are to analyse the price spread in agricultural,

Marketing sector, policy implications and to identify the production, and

Marketing problems of the farmers.

### Price Spread

Producer's share of rice during the season varied about 50-58 percent of the consumer rupee. During the off season it was ranged from 61 to 64 percent. The absolute margin between retail price



Work in paddy fields could be the last choice of the unemployed young girls of rural Sri Lanka.

and wholesale price was ranged from 10 to 17 percent for samba and from 7 to 20 percent for nadu rice. The higher margins were recorded in the months of May, June and July. The higher margins between producer price and wholesale price was observed in March, April, May and December when the higher demand occurs due to festive seasons. Cost of production of paddy is about 30 percent of the retail price. When we consider the cost of production of paddy equivalent of a kilo of rice, the cost is about 49 percent.

The gross margin between retail price and the producer price of dried chillies varied by 23 to 33 % during the year by indicating that 70% of the consumer rupee goes to the producer. However the margin between wholesale and producer price varied around 10% and the higher margin (20%) prevailed between wholesale and retail price, where the cost exceeds the transport, handling and incidental charges. Cost of production is about 52% of the retail price and also farmer gets nearly 70% of the retail price, by showing the efficiency at farm level. The margin between the Producer and Wholesale price is much lower than that between the wholesale and retail level.

Considering the gross margin of potatoes, it ranged from 22 to 49% during 2000. The margin was less in October and November, because the government imposed surcharge on potato imports. As a result producer prices have increased. However, during these two months market was distorted. The retailer's margin is about 20% of consumer rupee, when the producer gets 60% of that, during these months. Considering the whole period producer gets about 50-80 percent from consumer rupee.

Big onion farmer gets 60% of the consumer rupee during the season. If the farmer keeps the stocks about 2-3 months he will get above 66%. The margin between wholesale and retail were higher than that of producer and wholesale price. This is not so inefficient like potato. According to the available data behaviour of the red onion market was more or less same as big onion. Cost of production is about 27%, of the retail price and producer gets about 38%

of the retail price. However margin between producer and retail price is about 40% of the consumer rupee

Producer's share of consumer rupee of upcountry vegetables (beans and carrot) was ranged between 40% and 60%, and (leeks and tomato) ranged between 30% and 45%, (cabbage) 30%. Producer's share of low country vegetables was 20-30%. There was a huge margin between wholesale and retail prices. Though there were many retailers in the market the margin indicates abnormal situation, where consumers were unable to get the benefit from competitive market structure. Cost of production is about 20% and farmer gets about 30% of the retail price. The margin between retail and wholesale is about 40-60% of the consumer rupee.

Considering the fruits market only Kolikuttu (banana) and pineapple producers get about 60% from the consumer rupee. Ambul (banana) and papaw producers get less than 40%. The gross margins were more or less equal for ambul (banana) compared to kolikuttu (banana). During the latter part of the year, margin between producer and wholesale price for papaw and banana was higher than that of the wholesale and retail price; when the Ramazan fasting period and Christmas season occur.

Producer's share of salaya varied widely compared to hurulla and balaya. December through April, producers of salaya get lower shares than that of other months. The highest share obtained in August. The absolute margin between wholesale price and retail price of salaya and balaya was above 40 percent of the consumer rupee, while that of hurulla was less than 40 percent. Though there were lesser wastage for salaya and hurulla compared to balaya, retailer's margin does not show it clearly. The higher margin of small fish and balaya at retail level is body affected to the poor consumers.

Producer prices of eggs are not available in HARTI. Hence we used the data collected for the poultry survey in 1999 (Messers Rupasena and Ratnayake). According to that survey data producer gets about 60% January through April and more than 70% during the rest of the months except July. Wholesaler's margin was about 13-19% during the year. The retailer's margin was ranged from 3-35% during year and the highest was in March and July, while the lowest was in May and June. Retailer's margin based on 2000 data base showed that it was less than 10% during the whole year except the months of May, October and November. The margin at retailer's level is higher than that of wholesaler's level.

### **The Wholesale Margin is Higher due to following Reasons**

Non existence of fair weather roads connecting the village to the market and sometimes the village market to the nearby primary market hinders the efficient flow of agricultural products. In addition it is also responsible for inefficient and time consuming modes of transportation. When the vehicle is hired by the farmer, the cost of shifting the produce from village to the town is great. Moreover, the physical loss of produce incurred during the transportation, loading and unloading was an additional cost.

The unique features of production and consumption pattern of this country are also responsible for the high cost of marketing.

On account of lack of proper storage facilities there is considerable waste due to damages of food grains, seasonal losses due to damage to the produce stored in private storages are estimated to be about 1.5 to 2 percent of the quantity stored, while in the case of public warehouses they are estimated to be around 2 to 3 percent. The cost an account of these losses are passed on to the consumers in the form of high prices. (PMB evaluation report & HARTI Surveys)

Cost of transport and storage, as a rule are to relatively high for products that are bulky in relation to their market value such as grains and potatoes, vegetables and fruits. Distance from the market is also an important element in transportation costs, so important indeed that this charge often limits the market areas within which products can be sold profitably.

When the larger quantities of products handled, greater facilities such as warehousing, cold storage, equipment, loading and unloading, machineries etc, are available at a cheaper cost to the wholesaler. In the case of retail sales, margins tend to be high since the units handled are small.

When all kinds of ungraded products containing dirt, and/or impurities, transport from village to market, higher transport costs are unnecessarily incurred. When the produce reaches to the merchant, he cleans and grades it in accordance with the preferences of his customers. The higher price thus goes to the middlemen and not to the farmer. In fact, farmers should clean and grade their produce, so that they could obtain the higher price.

The cost of marketing perishable products is always higher than that of non perishable ones. In the case of easily perishable products like fruits, vegetables, fish and meat, special provision will have to be made for their proper preservation and keeping. Hence the marketing cost is always high. Often cold storage equipment is necessary

and this involves additional expenditure. Breakage in transit, shrinkage, damage and wastage from deterioration not only in transit but also at wholesale and retail stores are more common and losses on this account, therefore tend to be heavy. When the sales of such perishables are not quickened they become unsalable, due to poor quality. Thus the product is more perishable the marketing cost is greater.

The traders of fruits and vegetables try to raise prices by keeping higher profit margins for their sales from the morning till noon. They gradually go on reducing their margin till late evening as they are aware that they are not able to get anything for the rest of the stock in the next morning because fresh stocks reach the market in the morning.

Seasonal agricultural products like fruits and vegetables are valuable during the off season. Middlemen have to keep their cost lower by handling a sufficient variety to maintain a confirm volume throughout the year. The handling of seasonal products results in higher cost of marketing. Consumers desire to have a fresh flavour at any time has to be considered.

Losses and waste due to unfair trade practices increase spread between the farm gate price and retail price of the commodities.

Production for the market involves substantial risk that adds to marketing costs. Risks of price fluctuations, quality deterioration, physical losses, government policies etc are important items which raise marketing costs.

The services rendered to consumers by the marketing system, specially the retailers, reason for high marketing costs. Retail shops remain open at night as a convenience to consumers is yet another service. However, the rendering of consumer services which results in high costs and great satisfaction does not indicate inefficiency in the marketing system. By the same token, low marketing costs bought about by absence of service do not indicate existence of a high degree of efficiency.

By increased efficiency in the performance we have the greatest opportunity of reducing the marketing cost. Increasing the volume or the size of the business is one of the most effective ways of increasing the efficiency of the business firm's operations. Increased efficiency in physical handling includes self-service, retail food stores, prepackaging of perishable products, use of trucks in transportation, refrigeration equipment for perishable products - increasing use of mechanical aids, telephones, adding machines, modern counters, and display cases, would raise efficiency of the business concerns.

The product moves from the farm to the consumer is called vertical integration. Supermarkets and cooperative stores purchase agricultural commodities by eliminating two or more steps in the marketing channel from producers by entering into an agreement with them. Hence these farmers grade their products and earn more than the other farmers. The supermarket and cooperative stores can do mass distribution, which is benefited to the consumers.

Many marketing services can be shifted to farmers and /or consumers. Grading the products at farm level and self service at consumer level helped to reduce the margin.

### Government Policy Implications

Sometimes government policy seeks to reduce rural poverty but the same policy reduces urban consumption within the existing economic and social framework. Imposing the excessive "taxing" of agricultural food imports to support inefficient local agricultural production sector was badly affected to the urban poor. Most of the crop production in Sri Lanka are less cost efficient compared to other countries. Hence it is very difficult to compete with the imports.

The evolution of government in this sector has varied time to time, but certain themes, approaches and weaknesses have occurred in many of them. These weaknesses have been both structural and attitudinal. The structural weaknesses reflect the influences of the organizations that have been created in the past, and the attitudes and orientations implicit within them.

First, government involvement in the sector has often been initiated for other objectives, which have not been particularly related to the efficiency of the distribution system itself, such as the securing of an urban food supply, reducing imports, stimulating production, raising tax revenue, or sustaining low consumer prices. Most of them may originate from a variety of sources or from the short term objectives of different political groups. These groups can sometimes provide an important stimulus but at other times can cause disruption to more long term policies. Often, such policies need to be regularly reviewed and integrated to ensure effective policy making.

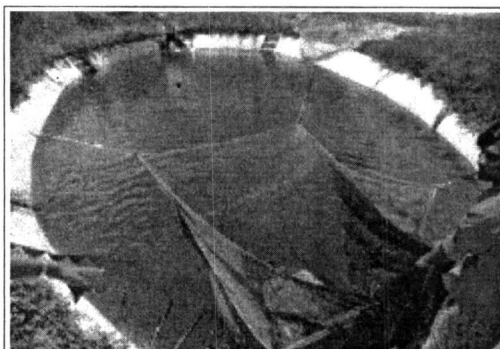
The main important objective of the country is still increasing the internal food supply. This is done not only to reduce food imports to help balance of payment problems, but also to generate a more effective use of the country's own resources. In addition, efforts to stabilize the prices and flow of food supplies have often

played an important role in securing adequate food distribution to all sections of a community.

Some of the policies have often favoured urban consumers more than the rural community, because of the stronger political influence in urban areas. Marketing policy, in particular, often gains its initial major impetus from the needs of the urban population.

One characteristic of many government policies has been the tendency to treat all private intermediaries as "cheaters". The exploitative practices of "middlemen" have been a regular part of political statements, despite efforts to make people more critical of who the middlemen are, and what they do. Such attitudes have been shown an ignorance of the functions performed by the intermediaries, of functions in supply, and of particular trading difficulties. These types of attitudes develop because many of the people involved in policy making and its implementation in government departments and corporations have had little or no regular contacts with different intermediaries or knowledge of the functions they are performing.

On the other hand, there are some intermediaries practice fault transactions, and some are definitely exploitative. Such exploitative practices lead only to poor policies that impede the working of the system without providing a viable alternative. This



Fresh water fishing is another line of income generation in the rural economy which deserves the attention of the authorities.

attitude has often led many governments to a "control" orientation, where an alternative of stimulation of the private sector might have resulted in a better use of private sector resources. Many policies have been directed to controlling market prices, or to controlling the activities of traders by licensing, quota allocations or restricted movement.

Some policies have reflected an ignorance of the dynamics of changing marketing systems and of the needs and perspectives of different economies of scale. An awareness of the likely future needs of a food marketing system can enable a government to intervene more effectively. This is often applicable to storage or processing needs.

Many of the policies effecting food marketing have been introduced without full consideration of their

economic and social consequences such as impact on employment. Knowledge of employment structures, occupational mobility and the possibilities of employment generation within the food marketing system are negligible. Similarly the impact of different policies upon migration or income distribution is almost never considered, the coordination of marketing policies with regional planning and developments in agro-industries, food processing and transport system has also often been poor. Road construction has helped the marketing system in some cases, but in other an improved telephone system, or improved provision of appropriate rural vehicles, would have helped more.

The full impact of alternative marketing policies on food production is rarely analysed. Where the producers are market conscious, poor market policies or the lack of them can have a considerable impact on the producer's activities. Improving production without simultaneously improving the distribution system for the incremental production can lead to wasted produce, discouraged producers and a decline in subsequent production.

The structure of government departments initiating and implementing policy has frequently been a significant handicap on development of integrated and effective marketing policies.

There is a range of government departments, ranging from finance or planning to commerce, transport and agriculture Ministries at national level as well as different local government administrations, all of which will initiate and implement policies affecting marketing. The peripheral importance often attributed to food marketing policies has meant that responsibility has been delayed to small sub-departments of these bodies, which have only marginal influence and limited resources, and limited opportunity for interdepartmental contact and coordination.

One particular area of difficulty is the use of food marketing system as a source of government revenue. Some forms of taxation lead either to tax evasion or avoidance by private intermediaries, or to unproductive antagonism between such intermediaries and the government which inhibit possibilities for further cooperation.

Decision makers may also be handicapped by a dearth of relevant, reasonably objective analysis of the trading system, and by poor links with academic or research departments that might supply such analyses.

The methods used by governments intervening in the market system in the recent past

have varied between efforts to control, direct, improve or provide facilities for private trade, and direct participation in the distribution system by nationalization or the creation of state or parastatal organizations to perform specific trading functions.

In Sri Lanka, mainly rice, big onion, potato and chilli farmers face problems compared to other crops. On the other hand consumers complained the high prices of these commodities so that governments take ad hoc policy decisions in favour of farmers as well as consumers. However, both the farmers and consumers were not benefited in many occasions. When the duty wavers are given for rice imports, the government loses the income. When the rice stocks reach the country millers purchase paddy at a lower rate, so that the farmers lose their income, when the imported rice prices keep at the prevailing rice prices, anticipating to keep the retail prices at a higher rate consumers unable to buy imported rice at lower prices.

To protect the local farmer extra duty was imposed. In general big onion is a yala crop and the crop is marketed during September to December. Big onion farmers know that most of the produce can not be stored for a longer period because of the immature harvesting. Most of the farmers try to sell the crop immediately after harvesting due to weight loss and high risk. Big onion farmers are also consumers during the rest of the year. Large stocks of imports come to the market during the off season and all the consumers are unable to buy the produce at lower price during the off season also due to high tax.

Duty on potato imports is also affected badly to the vegetable cultivation. After imposing an extra tax (Rs.20/kg) for imported potatoes, the margin between the CIF price and wholesale price was above 100%. The retail prices have increased up to Rs.80/kg. As a result, consumption of both local and imported potatoes declined sharply according to the traders. As a result quantity imported also declined sharply. On the other hand there was not a bumper crop recorded. Since potato is used as a curry, prices of other vegetables have also increased and as a result vegetable demand also declined. Due to above reasons demand for pumpkin, ash plantain and local yams has increased as substitutes.

Farmers complained about the quality and high cost of seed, fertilizer, agrochemicals and labour. Though there are improved technologies farmers are not able to get those techniques. Farmers buy seeds from the private traders and the quality of the seed can be seen only the later stages, especially after harvesting. Some of the rural farmers face many problems to bring the produce to the market, due to nonexistence

of fair weather roads. Moreover, the physical loss of produce incurred during the transportation, loading and unloading is an additional cost. Lack of proper storage facilities there is a considerable waste due to damages.

Many times farmers are not able to get the assistance from the relevant officials for the crop diseases. Hence they have to depend on the chemical traders.

Producers think that whatever they produce should buy the consumers. Consumers always try to buy what they need. So that it is necessary to sort the produce and grade before selling to the traders. If it is so one marketing service can be shifted to the farmers to obtain better price.

### Conclusion

It is revealed that the low country vegetable farmers get the 20% of consumer rupee while up country farmers get 30% to 60%. Potato, chillies, big onion, red onion and paddy farmers get more than 50% of the retail price. Market structure revealed that prices are competitive in nature and transmit signals over space and time. Producer's share in consumer rupee of agricultural commodities varied widely. The highest share recorded was 80% for potato. The lowest share recorded for low country vegetables and it was 20%.

The cost of production as a percentage of consumer rupee was also calculated. This analysis showed that the cost of production of paddy equivalent to a kilo of rice is 49 percent. Cost of production as a percentage of consumer rupee for red onion and vegetables varied 27% and 20% while producer's margin was around 10%.

Considering the price fluctuations of agricultural commodities, during the off season prices increased between 10-20 percent on an average. However in the month of June it was above 25-40%. It is advisable to cultivate as much as possible to reach the market during these periods.

The innovations of recent years have usually been of a concrete, tangible nature such as the construction of feeder roads, market places, storage facilities and supermarkets. Always government officials prefer build supermarkets to develop infrastructure facilities. Building of markets has not been affected to enhance rural farm income and this should be further studied.

It is important to consider all the sectors before taking policy decisions, because any distortion in one sector directly or indirectly affected to the other sectors also.

The government has adopted a "laissez-faire" attitude towards the private sector, intervention has been predominantly through indirect controls on the market. A major tool in this form of control has

been price policy. Governments have tried to control prices by direct legislation, by releasing of government food stocks at strategic times, or by restricting the possibilities of private trader to create or exploit irregularities of supply.

Some other areas of tangible support which could be of considerable assistance to the marketing system have been neglected. Some examples are aid in the purchase and maintenance of vehicle, aid for establishing or renovating private storage facilities for producers or traders, or the improvement of telephone systems to help the speed of communication, so important for some types of marketing.

Intangible assistance, such as the dissemination of market information to producers and traders, training in more complex marketing skills, the organization of trading cooperatives or provision of credit to disadvantaged smaller traders have also been neglected. Programmes for disseminating market information to producers have been ineffective because the back-up services have been poor.

The availability of government credit for rural farmers, traders and other intermediaries has often been restricted for some of the reasons given above. Instead, credit has been made available to producers and farmer organizations

Apart from economic research, other academic disciplines have been slow to enter the field, although their contribution could be considerable. It is easier to confine to interviewing in a village or an urban market than trying to interview itinerant traders, transporters or other intermediaries.

Marketing improvement underlines the need to improve the orientation of applied marketing research and to aim at realistic targets. Unless this is done, much time and resource consuming research may be wasted and /or only particularly applicable, and many problems will still remain.

According to the discussion conducted to impose a surcharge of Rs.20.00/kg for imported potatoes, the local market prices increased gradually since September 2000. This price increase is adversely affected to the local consumers because as a result of this prices of substitute food crops such as pumpkin and ash plantain have increased. Apart from that prices of local potato have also increased considerably. This is directly linked to the prices of upcountry vegetables. Many farmers used their farm lands for potato cultivation instead of other vegetable cultivation. In the short term vegetable farmers sold their vegetables at higher rates. As a whole due to this pricing policy cost of living index increased.