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Embededness of Financing in Cocoa Marketing in a Deregulated Nigeria Environment

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Abstract: Cocoa Board which used to monopolize the marketing and exporting of cocoa produce in Nigeria was scrapped alongside with the other Commodity Boards in June 1986 as a result of inefficiencies in the Commodity Board System. The abolition of cocoa board ushered in the era of free market operations under which many private individuals, firms and corporate bodies are free to engage in the domestic trading and exportation of the produce. The study used descriptive statistics such as frequency distribution and percentages derived from data collected from 140 cocoa market operators in the study area. The study revealed that cocoa farmers, cocoa LBAs, cocoa exporters, banks/financial institutions and warehousing agents are the key players in cocoa marketing. It further revealed that pre and post-harvest financing is key to cocoa trade and that the cocoa marketers have multiple sources of capital to finance their cocoa trading.The Nigeria LBAs were the major source of capital to cocoa farmers, the exporters; the major sources of finance to the LBAs while the banks and other financial institutions are the greatest source of finance to the exporters. It can be concluded that cocoa business cannot be done on a large scale without some modicum of credit extension; this undoubtedly was the reason why 76.92% of the LBAs would not want to change their credit policy.

Key words: Marketing, financing, risk, commodity boards, deregulation

INTRODUCTION

Background: The reorganization of the Marketing Boards in 1976 gave rise to the creation of seven different commodity Boards. They are the cotton, grain, palm produce, groundnut, rubber, root and tuber crops Boards, Idachaba and Ayoola[1]. Until June 1986, when the Commodity Boards were scrapped, the marketing and exporting of agricultural produce in Nigeria was mainly monopolized by the commodity Boards. One of these boards is the Nigeria cocoa board for the cocoa produce in Nigeria.

The decree establishing the Commodity Boards spelt out their objectives. With particular reference to the then Nigerian Cocoa Marketing Board (NCMB), the primary objective was To serve the most favourable arrangement for the purchase, grading, export and marketing of cocoa, and to assist the development, by all possible means of the cocoa industry for the benefit and prosperity of producers Section 16 of the cocoa Marketing Board Ordinance, 1947 (NCMB) 1949. Contrary to the objective spelt out in the ordinance, the general consensus was that the Commodity Boards especially the Cocoa Board failed to perform some of the above functions. In supporting this general consensus, Idachaba and Ayoola[1] reported that the Nigerian Cocoa Board failed to achieve their objectives of price stablization and maintenance of farm income, hence, farmers received no incentives to stimulate production.

Other characteristics features of the Nigeria Cocoa Board era include:

- Increased activity of smugglers of cocoa beans and other cocoa products.
- Delayed payment of cocoa Licensed Buying Agents (LBAs) for cocoa graded and delivered.
- Delayed evacuation and marketing of other cocoa products.
- Rapid decline in cocoa production.

As a result of the inefficiencies in the commodity boards system and following structural changes in the Nigeria economy in the mid eighties, the marketing board structure was abolished by the Federal Government of Nigeria in 1986 and this gave rise to free market operations. Under this new marketing system, many

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private individuals, firms and corporate bodies are free to engage in the domestic trading and exportation of agricultural produce. Farmers sell to these private entrepreneurs who performed various marketing functions in the Nigerian Cocoa Economy.

Marketing means different things to different people. The difference in meaning is as a result of differences in view points not from differences in the activity itself. Some view marketing broadly while others view it narrowly. Some individuals recognizing the many varied viewpoints that can be taken of marketing prefer not to attempt to define it[2].

Olufokunbi however submitted that the definition that is most succinct and all embracing is the one given by the British Institute of Marketing which runs thus: Marketing is the business management process for anticipating, identifyingand satisfying customer requirement profitably. Olufokunbi[2] enumerated functional, institutional, behavioural system, marketing mix and structure conduct and performance paradigm approaches for studying marketing process.

Relevant to this study are the functional and institutional approaches. According to Kohls[3] the functional approach to studying marketing process answers the what in the question of who does what while the institutional approach focuses on the various agencies that perform the marketing process and it addresses the who in the question of who does what. The emphasis in the institutional approach is the human elements.

This study reports on a study on Cocoa marketing in South-Western Nigeria. This paper emphasises the functional and institutional approach to cocoa marketing with special consideration for the financing function.

MATERIALS AND METHODS

The data used for this study were collected from sources in Ondo and Ekiti States of Nigeria. These states account for between 50 and 55% of cocoa production in Nigeria. The remaining 45 to 50% of cocoa outputs are distributed amongst ten other states in Nigeria[4]. Cocoa marketing operations are hence more concentrated in Ondo and Ekiti states than any other states in Nigeria.

The data were collected through the use of structured quesitonnaires and informal interview. Different questionnaires were developed for LBAs, bonded warehouses and cocoa exporters. The informal interview were used to obtain better perspectives of the data gathered through the structured questionnaires.

The respondents were selected by simple random sampling from a sampling frame constructed from the information provided by the Produce Departments of the Ondo and Ekiti States' Ministry of Agriculture. Also, inputs from farmers, LBAs, exporters and warehousing operators were used. A total of 96 LBAs, 30 exporters and 14 bonded warehouse operators were selected for questionnaire administration and informal interview.

The data collected were analyzed through the use of descriptive statistics such as frequency distribution and percentages.

RESULTS AND DISCUSSION

Key players and their functions: The study revealed that the institutions involved in the movement of cocoa from producers to the exporters in Ondo and Ekiti States of Nigeria in 2004 consisted of cocoa farmers, Local Buying Agents (L$_o$BA), Cooperative Societyand Licensed Buying Agents (LBAs). The marketing channels for cocoa beans distribution in Ondo and Ekiti States as of 2004 are decentralized and consist of five systems as diagrammatically represented in Fig. 1.

Cocoa farmers are responsible for the growing, harvesting and processing (fermentation and drying) of cocoa beans.

Licensed Buying Agents (LBAs): LBAs are the bedrocks on which the trade in cocoa depends. These group take funds from the exporters and they in turn finance other levels of cocoa buyers (farmers local buying agents and pan buyers).

The cocoa exporters are the group of traders that link the country's produce (beans and product) with the international cocoa markets. The exporters get their sources of finance majorly from banks and other financial institutions, disburse the fund to the LBAs and other levels of intermediaries for the purchase of cocoa to be finally exported.

The banks/financial institutions, are the body on which the success of cocoa trade depends particularly in

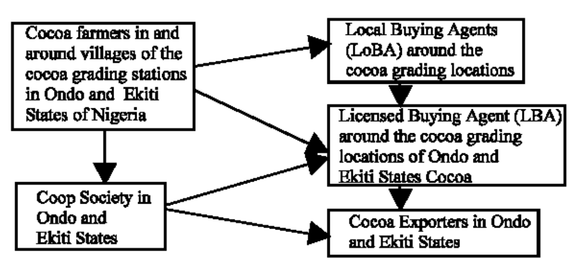

Fig. 1: The channel of distribution of cocoa marketing in study area 2004

the prompt release of fund for performance of contracts from farmers, to the processors.

The warehousing agents, take custody of graded cocoa beans. The quality and quantity control function is often handled by this group. They certify the quality and quantity of cocoa beans and products sold or shipped. The independent organisations serve as representative of the foreign buyers.

Warehousing provides financing arrangement which enables an exporter to obtain finance from his banker, finance house or overseas importers by storing and securing his good in the bonded warehouse under agreed terms. As against the Board era, indigenous warehouse keepers are accorded great respect and recognition by local bankers and overseas buyers.

The government agencies: These are government ministries and parastatals that are connected with commodity trade. They include the department in the Ministry of Agriculture and Rural Development which handles the grading of all cocoa produced in Nigeria and also collected all government revenue from their services.

Financing function: The success of cocoa trade depends on the prompt release of fund for performance of contract from farmers to the processors. Finance is very important marketing service especially in cocoa industry where huge capital outlay is involved to facilitate production by farmers, sales and purchases by merchant middlemen in the provision for grading and standardization facilities, storage, packaging and transportation all of which engender smooth marketing operations and finally processing by local processors.

Cocoa farmers, cocoa LBAs and cocoa exporters which are the major key players in cocoa marketing have multiple sources of capital as shown in Table 1-3 for the cocoa farmers LBAs and exporters, respectively.

However the result of this study showed that the greatest source of capital for cocoa farmers in Ondo and Ekiti States are the Licensed Buying Agents (LBAs); as 62.22 % of respondent cocoa farmers in Ondo and 62.5 % respondent cocoa farmers in Ekiti State, respectively (representing 62.36% of cocoa farmers in Ondo/Ekiti States) indicated the LBA as the sources of their capital; cocoa exporters represented the greatest source of finance for LBAs 73.68% of Ondo LBAs and 80% of Ekiti LBAs (representing 76.84% of LBAs in Ondo/Ekiti States) obtained capital from the exporters while the greatest source of finance to cocoa exporters are banks and other finance institution formed the major source of capital as 100% of them quoted the source.

Table1: Distribution of Ondo and Ekiti cocoa farmers according to capital

	Number of respondents			Percentage		
Capital sources	Ondo	Ekiti	Ondo/Ekiti	Ondo	Ekiti	Ondo/Ekiti
Personal savings	17	4	21	17.71	16.67	17.19
Friends and Relatives	7	2	9	7.78	8.33	8.05
LBAs	56	15	71	62.22	62.50	62.36
Bank and other finance	-	-	-	-	-	-
Co-operative	9	2	11	10.00	8.33	5.97
Others	7	1	8	7.78	4.17	5.87

Source: Computed from field data 2004

Table 2: Distribution of LBAs according to sources of capital

	Number of respondents			Percentage		
Capital sources	Ondo	Ekiti	Ondo/Ekiti	Ondo	Ekiti	Ondo/Ekiti
Personal savings	11	4	15	14.47	20.00	17.23
Cooperative Society	4	2	6	5.26	10.00	7.63
Friends and relatives	7	4	11	9.21	20.00	14.60
Exporters	56	16	72	73.68	80.00	76.84
Banks	17	4	21	22.37	20.00	21.18

Source: Computed from field data 2004

Table 3: Distribution of cocoa exporters according to source of capital

Capital source	Number of firms	Percentage
Personal savings	10	33.33
Banks and other financial institutions	30	100
Cooperative societies	-	-
Friends and relatives	6	10.00
Others sources specify	-	-

Source: Computed from field data 2004

Granting of credit: In recognition of credit as a means of financing cocoa marketing in the study area, the study revealed (Table 4) that 85.53% of cocoa LBAs from Ondo State and 85.00% of cocoa LBAs from Ekiti State granted credit as advance for procurement of cocoa. Among those LBAs that granted credit to the farmers, Table 5 revealed that 76.92% of Ondo LBAs and 70.59% of Ekiti (representing 75.61% LBAs for Ondo/Ekiti States) anticipated no change in the present credit extension policy.

Mode and timing of credit: Supply of Credit could either be in kind or cash. Credit in kind consist essentially of the major agrochemical inputs required by the farmers. Supply of credit by exporters to the farmers could come in two folds of pre-harvest and post-harvest.

Pre-harvest supply of credit by the LBAs could take the form of cash and kind in an attempt to assist the farmers to continue in production by providing credit to finance cultural operations, secure source of produce, guarantee supply of produce and obtain good prices in terms of forward contract. Post harvest provision of credit

Table 4: Granting of credit to farmers by cocoa LBAs in study area

	Number of respondents			Percentage		
Capital sources	Ondo	Ekiti	Ondo/Ekiti	Ondo	Ekiti	Ondo/Ekiti
Yes	61	17	82	85.33	85.00	85.42
No	11	3	14	14.77	15.00	14.58
Total	76	20	96	100.00	100.00	100.00

Source: Computed from field data 2004

Table 5: Anticipation over credit policy by LBAs in study area

	Respondents		Percentage	
Anticipation over credit	Ondo	Ekiti	Ondo	Ekiti
Granting credit extension	6	3	9.23	17.65
Reducing credit extension	9	2	12.85	11.80
Increasing credit extension	-	-	-	-
No change in the present policy	50	12	76.92	70.59
Total	65	17	100.00	100.00

Source: Computed from field data 2004

in form of cash is to assist the farmers in meeting harvesting and processing costs, secure sources of produce, guarantee supply of produce and obtain good prices also in terms of forward contract.

Risk bearing and mitigation: The credit delivery system ensures that risks of financing the cocoa economy in the two states are shared amongst the major players. This is because financing through credit flows all the way from the financial institutions through the exporters down to the farmers. These risks usually arise from three sources namely: deliberate default by farmers, crop failure resulting in inability of farmers to provide cocoa beans commensurate to the pre-and post harvest financing received as creditand thirdly price collapse which result in inability of cocoa farmers to deliver enough value (cocoa beans) commensurate to the financing received as credit even when there is a good harvest.

In addition, there are the risks of default by LBAs in their responsibility of transfer of value (cocoa beans) to the exporters while there is also the risk of loss of value (cocoa beans) through pilferage, tilling and laden etc. on (bearing) of the risk of loss at the warehousing level depends on the contractual arrangement between the three parties-exporter, financing institution and the part of the (bonded) warehouses. The sharing (bonded) warehouse . Of course there is also the risk of deliberate defaults by exporters in discharging its repayment obligationsto the financing institution. The final source of risk is loss in transit through involvement of trucks in accidents and occasionally theft.

Mitigation of these risks by the various players requires adequate knowledge of the industry. The local and licensed buying agents must be able to assess a

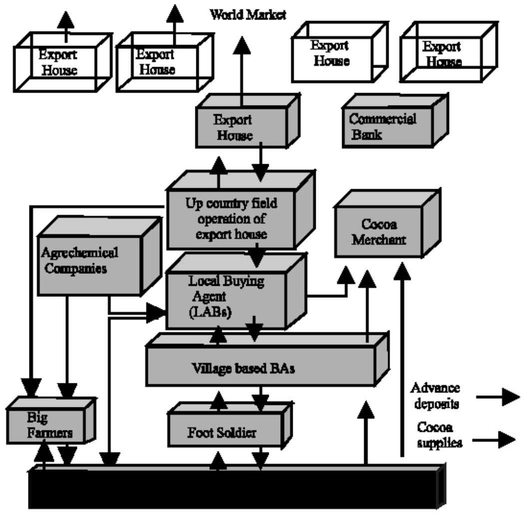

Fig. 2: Financing infrastructure: Post liberalization adapted after Akinola and Akinola[5]

farmer's requirements for cocoa farming and ensure that the total financing they provide him does not exceed that. They must also understand the cocoa calendar of operation to be able to properly time the financing of farmers and the recovery of values (cocoa beans) else the farmer may use the fund for other purposes other than cocoa production or may sell his cocoa beans to other buyers without discharging his obligations to the LoBA and LBAs that financed him in the first instance.

The other players-exporters and financial institutions must also understand and keep the cocoa calendar of operations in viewand use that to monitor their financing exposures to other parties and ensure timely recovery of values (cocoa beans and/or fund) at minimum cost.

Insurance is also an option for mitigating some of the risks. Good exporters and bonded warehouses are expected to insure their operations to mitigate some of the risks. An overview of the embednedness of financing in the marketing of cocoa in Ondo and Ekiti States in South-Western Nigeria is provided in Fig. 2. The figure shows essentially that financing flows in one direction while the produce (cocoa beans) flows in the opposite direction. Without adequate flow of financing the production and marketing of cocoa bean will experience a major bottleneck that may significantly limit what is available for export.

CONCLUSION

The study revealed that cocoa farmers, cocoa LBAs, cocoa exporters, banks/financial institutions and warehousing Agents are the key players in cocoa marketing and that they have multiple sources of capital to finance their cocoa trading in Nigeria under deregulated environment. The LBAs are the major source of capital to cocoa farmers, exporters are the major source of capital to LBAs while the banks and other financial institutions are the greatest source of capital to the exporters.

The majority of cocoa farmers in Ondoand Ekiti states sourced thier capital from the LABs because they do not have the collateral required by thecommercial banks and may not be able to cope with the interest rate from other financial sources. The fact that high percentage (76.54%) of the respondent LBAs finance their operations from fund provided by exporters indicates that cocoa business required large sum of money which many buyers cannot afford from their personal savings; hence their reliance on the exporters as their major source of capital. Finally, exporters also require significant amount of fund for their cocoa exports for which they depend on the banks. Pre-and-post-harvest credits play major roles in the cocoa financing arrangements, as the study revealed that cocoa business cannot be done on a largescale without some modicum of credit extension. This must have informed the decision of the large proportion (76.92 %) of the LBAs not to change their credit policy.

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