

The national haricot  
bean export  
marketing  
performance  
economics essay



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Ethiopia's economy is predominantly agricultural. According to MEDaC (1999), over 50 percent of the GDP and about 90 percent of the export earnings are derived from the agricultural sector. Furthermore, the sector provides employment for about 85 percent of the population. Ethiopia's share in agricultural exports of the world in value terms as pointed out by Teresa (2000), was about 0.23 percent per year in 1960's. This share fell to 0.20 percent in the 1970's and 0.15 percent in the 1980's. At the beginning of the 1990's, the country's share dropped rapidly to only 0.05 percent per year.

Following the economic reform in the early 1990s, Ethiopia's development strategies visualize export-lead growth /out-ward growth strategy (MEDaC, 1999); and hence the government took initiatives and made continued effort to improve the performance of the external sector by adopting various measures such as: devaluation of local currency and the rate is determined by the competition among banks, improving the licensing procedure (proc No. 67/89), continuous improvement of investment incentives, launched various incentives and made continuous improvement (removal of sale and excise tax, abolishment of NBE price control on exportable goods, introduction of export credit guarantee scheme, issuance of directives for allowing external loan and suppliers credit, and limiting the role of the state to the level of indicating development options, drafting policies and laws; promoting private investors by creating a conducive working atmosphere), and establishing and improving different organizations that have got direct links with the export trade.

Ethiopian Grain Trade Enterprise (EGTE), among others, is one of haricot bean exporters' with long time experience in the sector. To this effect the study will concentrate on the analysis of EGTE haricot bean export marketing systems in order that its performance will be evaluated in line with improving the effectiveness and efficiency of the national marketing systems.

## **1. 2 Statement of the Problem**

The share of Sub-Saharan Africa (SSA) in the world trade has decreased dramatically over the past decade and half. Growth has dropped in absolute terms as well (Svedberg, 1991). The same is also true for Ethiopia. Ethiopia's export sector is characterized by a product concentration of primary commodities namely, coffee, hides and skins, oilseeds, fruits and vegetables, live animals, and meat. Because of the heavy reliance of the sector on a few commodities and markets, Ethiopia's export base continues to be narrow and fragile (Belay, 1998; Seifu and Teklu, 2000). Hence, concerted efforts have to be made by both government and the private sector to remove supply and demand impediments that affect production, pricing, marketing, and storage of exportable item (NBE, 2001).

Ethiopia's share in the world agricultural exports of indicates reduction in value terms (Teressa, 2000). Among the major factors affecting agricultural exports, the type of commodities exported, the trend in the world market and price competitiveness are the most important ones (Tadesse, 1995). In order to increase the country's export performance and competitiveness, it is important to investigate factors affecting the export performance on commodity basis. One of the traditional export commodities in Ethiopia is

haricot bean that has been exported for more than 40 years mainly to Europe, Middle East and North Africa.

According to FAO data, the world dry bean production and imports, in value terms, grows exponentially at the rate of 1.20 and 6.14 percent per annum, respectively. The world dry

bean exports also had grown at the rate of 6.54 percent per annum for the years 1970-2000, while Ethiopia's exports of haricot bean in nominal terms has declined in the 1980's compared to the 1970's. It has increased in the 1990's (Annual Reports of Ethiopian Custom Authority). On the other hand, the exported volume of haricot bean (dry bean) from Ethiopia to traditional importing countries, like Netherlands and Germany, etc. has shown variability. That is, on the average, the share of Netherlands and Germany were more than 50 percent of the country's total annual haricot bean export during 1966-1995. While the import levels of these countries were declined for the period 1996-2001. On the other hand, volume from Ethiopia to countries like Algeria has increased since the second half of the 90's.

The major haricot bean (dry bean) suppliers in the world are China, Canada, Myanmar, U. S. A, among others. Although these countries dominate the world dry bean trade, the market share of each exporting country varies in terms of destination due to transportation, marketing skills, time of supply, and other factors. However, the price of haricot bean may affect the market share of exporting countries including Ethiopia in an import market. The price of dry bean is so far governed by a strong import demand and tight global supplies so that the prospect of the trend is likely competitive.

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Generally, the world situation in dry bean trade implies the presence of increasing demand and hence, haricot bean export performance of Ethiopia needs to be investigated in terms of analysing the efficiencies of the existing export marketing systems. In doing so, the haricot bean exporters operation deserves attention. Besides, to expand the country's haricot bean production on a continuous base, the producers' price should be encouraged and the country's breeding program has to respond to meet the diversity of market needs, since the preference of bean types differs with markets.

Further, in setting production and /or pricing strategy in foreign markets, Ethiopia has to consider its marketing efficiency (export performance) in each exportable commodity. Therefore, taking into account the need to diversify the agricultural export items, and the good potential of the crop for export due to its increasing demand, it is important to undertake this study with the special emphasis on EGTE, one of the leading exporters in the country.

### **1. 3 Objectives of the Study**

The overall objective of this study was to evaluate the national haricot bean export marketing performance with the following specific objectives:

1. To analyze the efficiency and effectiveness of EGTE export marketing operations
2. To identify the contribution of EGTE towards the performance of national haricot bean export and then

3. To identify constraints and prospects for EGTE in particular and country's haricot bean exports in general so that workable strategies will be recommended.

## **1. 4 Scope and Limitation of the Study**

The scope of this study was limited to the analysis of haricot bean export marketing systems, constraints and prospects of EGTE haricot bean exports towards achieving the country's development objectives. The study excluded other types of exportable agricultural commodities, and did not consider the national haricot bean export marketing systems in detail. One of the limitations of the study is time and budget constraint to undertake the whole national haricot bean marketing systems. Besides, the uncertainty of the data, that is, the quality of the data may not be in line with the quality desired by the study. However, the conclusion drawn in this study will be expected to provide policy makers and businessmen with valuable information in an attempt to deal with haricot bean export performance in Ethiopia.

## **2. LITERATURE REVIEW**

### **2. 1 Structure – Conduct – Performance**

A) Market structure: Market structure includes the characteristics of the organization of a market that appear to exercise a strategic influence on the nature of competition and pricing within the market (Bain, 1968 as cited in Wolday, 1994). The most salient features of market structure are: the degree of sellers and buyers' concentration, the degree of product differentiation

among the outputs of the various sellers in the market, and barriers to entry or freedom to entry and exit to the market.

If structure is to be conducive to high levels of economic efficiency, there should be a sufficient number of firms in an industry given the size of the overall market and firms of an appropriate size needed to fully capture the economies of scale; there should not be barriers to entry or exit from the market; and firms are able to differentiate and improve products over time as they compete against one another.

B) Market conduct: market conduct refers to the patterns of behaviour that enterprises follow in adopting to the markets in which they sell or buy. The principal dimensions of market conduct according to Raid (1987) include price setting, the manner in which the value and quality ranges of products are determined, advertising and marketing strategy, research, development planning, implementation, and legal tactics. “Acceptable conduct” includes the aspects that there are enough firms in the market to create some uncertainty in the minds of firms’ managers regarding whether price changes both up and down will be followed by competitors; there is no unjustified price discrimination; there is no collusion among different firms on pricing or other matters.

C) Market Performance: market performance according to Bain (1968) refers to the composite of end results which firms in the market arrive at by pursuing whatever lines of conduct they espouse-end results in the dimensions of price, output, production and selling cost, product design, and so forth (Wolday, 1994). For firms acting as sellers, these results measure

the character of firms' adjustments to the effective demand for their outputs; for firms buying goods, they measure the quantity of adjustments made by firms to the supply conditions of the goods they purchase.

Therefore, under S-C-P framework, the study will focus on the characteristics haricot bean exporters, buying and selling practice, pricing behaviour, the share of producers from FOB price, profitability of export trade, and export trade competition. These can be examined by assessing haricot bean export market concentration, assessing the profitability of the haricot bean export trade, and description of the export-marketing channel. The conduct of exporters has been described qualitatively. This analysis will be done with the special reference to EGTE.

## **2. 2 Concentration of Haricot Bean Export Market**

Market concentration refers to the number and relative size distribution of buyers/sellers in a market. It is generally believed that higher market concentration implies non-competitive behavior and thus inefficiency. The common measures of market concentration are concentration ratio, Hirshman Herfindahi Index (HHI), and Gini-coefficient.

### **A) Concentration Ratio (C) :-**

,  $i = 1, 2, 3, \dots, r$ , ..... (1)

The concentration ratio is the numerical index most widely used by industrial organizations for measuring the size of firms in market (Shughart, 1990).

While it is possible to use any economic variable such as employment, total asset or value added, for calculating concentration ratio, sales or purchase



figures have been the most popular basis for the index. Kohls and Uhl (1985) suggested that as rule of thumb, a four largest enterprises concentration ratio of 50 percent or more is an indication of a strongly oligopolistic industry, 33-50 percent, a weak oligopoly, and less than that, indicates un concentrated industry. The problem associated with this index is the arbitrary selection of  $r$  (the number of firms that are taken to calculate the ratio). The ratio does not indicate the size difference of the  $r$  firms.

## **B) Hirschman Herfindahl Index (HHI)**

$$HHI = \sum_{i=1}^n S_i^2 \quad (2)$$

Where:  $S_i$  is the percentage market share of  $i$ th firm, and  $n$ , the total number of firms.

The index takes into account all points on concentration curve. It also considers the number and size distribution of all firms. In addition, squaring the individual market share gives more weight to the share of the larger firms, which is an advantage over concentration ratio. A very small index indicates the presence of many firms of comparable size whilst high index of one or near one suggests that the number of firms is small and /or that they have very unequal share in the market (Scarborough and Kydd, 1992). The method is limited in its application for it imposes additional burden in so far as more data must be collected.

## **C) Gini-Coefficient**

Gini-coefficient is an alternative concentration measure that has some similarities in the concentration ratio. It is based on the Lorenz curves. To

use the Lorenz curve, the firms in an industry are ranked from smallest to largest in terms of their market shares. Then, the cumulative percentage of firms is ranked to their cumulative shares. Gini-coefficient compares the area between the diagonal and the Lorenz curve with the area of triangle under the diagonal line (Scughart, 1990 as cited in Admassu, 1998). A simple method to calculate the Gini- coefficient according to Scughart (1990) is to estimate the area of the trapezoids underneath the Lorenz curve at each quartile, subtracting the total sum from 10000 and dividing the difference by 10000. Chaubey (1996) also noted that the index is exactly equal to one or equal to one minus twice the area under the Lorenz curve. That is

$$G = 1 - 2A \dots\dots\dots (3)$$

Where, A is the area under Lorenz curve. The Gini-coefficient can also be calculated geometrically.

## **2. 3 Studies Related to Haricot Bean Marketing and Production**

The country's performance of export earning has been rising between 1991/92 and 1997/98; the exports of the country registered an average growth rate of 23. 30 percent per

year (ibid). However, the export performance of the country remains very weak and the exports structure rigid. For instance, exports covered hardly 30 percent of the imports during the year 1999/00 (NBE, 2001).

According to EEPAb (2002), Ethiopian pulse and oil crops exports, which are known for their flavors and nutritional value, were the third largest foreign

exchange earner during 1998/99 and 1999/2000. Although most pulses are produced mainly for domestic consumption, some of them particularly haricot beans are produced primarily for export market. There had been a declining trend in the production of pulse in the late 1980's and early 1990's primarily because of the anti-export biased policies and various controls pursued by the dergue regime. However, the recent economic liberalization and deregulation measures increased the volume of pulse export in Ethiopia. Among the pulse

crops, haricot beans are by far the most important export items in Ethiopia.

The term haricot bean is a general designation of most beans, other than horse beans, that are harvested and marketed in dry form (IEG, 1972). Although in Ethiopia the primary type is white (mostly small and medium sized), other types of different colored seed coats can be included in the "haricot bean" designation (ibid). Haricot bean has been known as an export crop for more than 40 years, and European Union and some neighboring countries constitute the major markets for Ethiopian haricot bean exports. According to Haile (1990), Ethiopia ranked fourth after USA, Canada and Argentina in haricot bean export. The country on the average exported over 21, 522 MT haricot bean and obtained over 29 million birr per annum during 1965-2001.

Setegn et al. (2001) also noted that the country on the average obtained over 16 million US dollar per annum as a foreign exchange from sales of haricot bean for the period 1993/94- 1997/98. Haricot bean is also grown as food crop for a much longer period (IAR, 1995). The type of beans

produced/needed for export is quite different from locally used (Amare, 1987).

Among the several classes of beans grown in the country, the navy type (white small seeded) that are characterized by high canning quality are produced mainly as an export

crop in Central Rift Valley and parts of Hararghie (Setegn et al., 2001).

Haricot bean is also important as a means of employment and in the farming system of small farmers operation. Subsistence small-scale producers primarily produce haricot bean (Amare, 1987; Alelign, 1994; Senayit, 1994; EARO, 2000). It is grown heavily in low land area (300-1100m) and some mid highland areas (1400-2000m) of the country. Nationally, area of haricot bean production is estimated at 300-500 thousand hectares (IAR, 1995; EARO, 2001). The average haricot bean productivity was about 8 quintal<sup>1</sup>/hectare (CSA, 2000). However, the experience from experimental plots indicates that 25-30 quintal per hectare can be obtained (EARO, 2001).

### **3. METHODOLOGY**

The research methodology designed for this study is “ analysis of the marketing systems by using commodity approach”. In a commodity approach, a specific commodity or groups of commodities are taken and the functions and institutions involved in the marketing process are analyzed. This approach focuses on what is being done to the product after its transfer from its original production place to the consumer (Kohls and Uhl, 1985). It helps to pinpoint the specific marketing problems of each commodity as well as improvement measures. The approach follows the commodity along the

path between producer and consumer and is concerned with describing what is done and how the commodity could be handled more efficiently. This approach has been used in this study as a guideline to identify different aspects of the problem.

The research methodology includes the methods of data collection and data analysis. In the data collection, sampling techniques & type, source & coverage of data are discussed. The next part discusses method of data analysis.

### **3. 1 Method of data collection**

#### **A) Data Source**

The study will use the data collected from various national and international sources namely, ECA (Annual Foreign Trade Statistics), CSA (Addis Ababa consumer price index), EGTE (monthly producer and wholesale price record, value and volume of export record and general quantitative and qualitative haricot bean marketing records), EQSA (monthly report on commodity export for certification), NBE (consumer price index of exported goods, monthly exchange rates, FAO (FAO stat data base), WTO/ ITC (PC- TAS data base), and IMF Financial Statistics (exchange rates over years).

#### **B) Method of Collection**

The study also will use primary data of haricot bean exporters survey designed to know the haricot bean exporters operation with the special emphasis to EGTE. In the survey, about ten haricot bean exporters excluding EGTE will be interviewed based on their willingness to cooperate, because most of the exporters were not voluntary to discuss matters related to their

business because of suspicion. In addition, for the description of the haricot bean marketing system an informal market survey will be done in the primary and wholesale markets around major haricot bean producing areas such as East Shoa Zone (Wolenchiti, Boffa, Donni, and Mojjo) and Hararghe (De-mbezo and Assebetefere). An informal market survey will be done through participant observation. In this case, it will be attempted to set participants respond to some structured questions, however, it might be expected that recording at the market in the face of others brought suspicion and tensions so that the researcher will try to capture the information through observation with some open discussion.

### **3. 2 Method of Data Analysis**

#### **A) Haricot Bean Export Marketing System**

Haricot bean export marketing system will be analyzed using the description of the haricot bean export marketing channel, measuring the haricot bean export market concentration (as a measure of structure) using either concentration ratio or Gini-coefficient, and estimating the profitability of EGTE and others haricot bean export traders using cost-benefit analysis (as a measure of exporters performance).

#### **B) Farmers Share of Haricot Bean Export Prices**

In Ethiopia, record of producer price for different agricultural commodities has been collected by CSA since 1980/81. However, the price record of CSA did not consider haricot bean until 1998/99. Besides, the price record does not differentiate exportable and consumable haricot bean types at the required place. On the other hand, EGTE involved in recording of producers

and wholesale prices of different commodities including haricot bean (white pea beans) in its operational areas. EGTE producer price record will be used to calculate the share of producers from fob price for the period 2000/01-2008/09 since the price record of the organization is attached with export market. The producer price record of the organization is collected around CRV namely, Nazareth, Mojjo, Alemtena, Mingar, Debre Zeit, and Arssi Robe areas where more than 83 percent of the country's haricot bean was exported. If possible and available the fob price (US \$/ton) for the period on monthly basis will be taken from the office of Nazareth Quality and Standard Authority, and converted to birr/quintal using the NBE monthly (marginal) exchange rate for the period 2000/01-2008/09.

Unlike other food crops, we cannot get the producer price of haricot bean through out the year since the crop is produced mainly for export, the crop stay in the market for short period, that is, the producer price record is found mainly for three months namely, October, November, and December. Therefore, the average producers' prices of these three months will be considered to calculate the share of producer's price from fob price.

## **4. WORK PLAN AND BUDGET**

### **4. 1 Work Plan**

The research project is planned to be accomplished within 88days. One data compiler is required to collect and compile data with the student for 63 days as summarized in Table 1. The major activities are planned to be data collection by the student and the data compiler from different sources for the selected 6 haricot bean producing areas excluding Addis Ababa, market

survey of the exporters, and field supervision in some selected areas, data analysis, and project writing.

### **Table 1: Time schedule for research activities**

Activity

Personnel requirement

Duration

Days allocated

Data collection

Employment and orientation of data compiler

Data collection

1

2

01/07/09-05/07/09

06/07/09-05/08/09

5

31

Data analysis

Data editing and encoding

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Data processing and analysis

2

2

06/08/09-12/08/09

13/08/09-07/09/09

7

25

Thesis writing

1

08/09/09-27/09/09

20

## 4. 2 Budget

### Table: 2 Budget

**No**

**Description**

**Unit of Measurement**

**Quantity**

**Unit Price in ETB**

**Total Cost**

**Remark**

**1**

**Perdium Expenses**

**18200**

1. 1

Data Collectors Training(2 persons)

Days

3

100

600

1. 2

Data Collectors (2 persons)

Days

30

100

6000

1. 3

Researcher (1 person)

Days

60

160

9600

1. 4

Advisor (1 person)

Days

10

200

2000

## **2**

### **Transportation Cost**

**19000**

2. 1

Car Rent

Days

20

600

12000

2. 2

Fuel

Liter

500

8

4000

2822kms

**3**

## **Adviser Supervision Fee**

**ETB**

**3000**

**4**

## **Stationary**

**4587.5**

4.1

Paper

Desta

40

50

2000

4.2

Toner

Tube

2

1100

2200

4. 3

Spiral

No

30

1. 25

37. 50

4. 4

Binding

ETB

350

**5**

**Total Cost**

**ETB**

**41787. 50**

**6**

**Contingency (10%)**

**ETB**

**4178. 75**

**7**

**Grand Total**

**ETB**

**45966. 25**