

# Challenges and Prospects of Agricultural Marketing in Konta Special District, Southern Ethiopia

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## Abstract

**Background:**-Agriculture in Ethiopia has directly or indirectly continued to be the source of livelihood to majority of the population. There are many kinds of agricultural products produced in the study area and the marketing of all these farm products generally tends to be a complex process. Agricultural marketing involves many operations and processes through which the food and raw materials move from the cultivated farm to the final consumers. In the study area market actors are facing increasing market inefficiency in local markets.**Objective:**-To assess the challenges and prospects of Agricultural Marketing in Konta Special district, Southern Ethiopia, 2016**Methods:** - A community based cross sectional study design was employed. 7 primary co-operative societies and 120 agricultural product traders were selected for the study. Data were analyzed using SPSS version 20. Besides this, qualitative data were collected analyzed using descriptive narrations to supplement the quantitative findings.**Result:** - This study showed that 80.9% was poor and 19.1% was good in agricultural marketing performance. Market information & linkage, road access, agro-processing & commercialization, ware housing, financial sectors development, presence of illegal traders, trust & business ethics, government support, legislation & control, presence of brokers, transaction cost on marketing and training and development were the major challenges of agricultural marketing in the study area.**Conclusion:** - Agricultural marketing performance in the study area was very low. Concerned bodies better work on those identified factors via to improve the efficiency of marketing system in the study area.

**Keywords:** Agricultural marketing, Challenges, Market actors, Konta special woreda.

## 1.1 Introduction

Agriculture plays a pivotal role in the Ethiopian economy, though the sector's development is highly constrained by infrastructural and institutional problems. According to (Zoellick, 2007) much of the people in developing countries live in rural areas, and most of them depend directly or indirectly on agriculture for their livelihood and in much of sub-Saharan Africa (SSA), agriculture is a strong option for initiating growth, overcoming poverty, and enhancing food security.

Those agricultural products should be marketed properly so as to improve the lives of the rural population. Agricultural marketing as a "process that starts with a decision to produce saleable farm products, includes pre and post-harvest operations, assembling, grading, storage, transportation and distribution transferring agricultural products consisting of farm, horticultural and other allied activities that, products from producer to consumer, supply of product from rural to rural and rural to urban and from rural to industrial consumers Vadivelu and Kiran (2013).

Connecting smallholder farmers to financial sources that can help them increase their productivity and grow their businesses remains is one of the most essential elements of transforming the agriculture sector overall. If a farmer does not have the means to purchase improved inputs at planting time such as fertilizer and improved seeds chances are lean that they'll see the increased yield at harvest, which they need to expand their efforts the following season. At the same time, those farmers who do manage to generate surplus stock need links to output markets where they can sell their harvests; particularly to commercial buyers who provide reliable markets and often offer higher prices than local and regional brokers and farmers are not be benefited from their sweet as expected Manashree (2014).

In fact suitable marketing system should be designed so as to give proper reward or return to the efforts of the farmer. Believing the importance agricultural sector in Ethiopia, the government developed a strategy for the development of cooperative societies and other market actors on agricultural marketing, making value chains more efficient is to reduce transaction costs and risks. Some of the interventions being pursued in these areas include: streamlining the fertilizer supply chain; redesigning the input credit system; developing routes and linkages to more profitable and sustainable markets; and trialing a new model that lets farmers sell their output via a more reliable and localized warehouse receipt structure. In this regard cooperatives and agricultural marketing are viewed as current hot issue in economic and social development in all over the world, especially in our country. It represents a considerable amount of business activity in a country, generates much wealth and employment and is widely considered to be vital to a country's competitiveness.

In the study area presence of high transaction costs, related to lack of sufficient market coordination between

buyers and sellers, lack of trust and business ethics among market actors, lack of contract enforcement, and lack of grades and standards, implies that buyers and sellers operate within narrow market channels, that is, only those channels for which they can obtain information and in which they have a few trusted trading partners, cooperatives could not well participated in agricultural marketing and all marketing activity done by other marketing actors then, producers couldn't be fairly beneficial.

## 2. LITERATURE REVIEW

### 2.1. Review of agricultural product's Marketing Studies in Ethiopia

Lirenso (1993) analyzed the marketing margins of farmers and traders in different regions of Ethiopia. The study revealed that the returns to trade were lower than other businesses due to the risks of transporting grain over space and storing it over time. The study concluded that lack of working capital and financial credit was among the major constraints of marketing.

The central grain market in Addis Ababa coordinates the flow of grain from regions to the major consumer center and other markets. Inter market grain flow is coordinated mainly by the brokers in Addis Ababa, who specialize by route and coordinate grain buying, selling, transporting, and pricing activities. Dessalegn, Jayne, and Shaffer (1998), and grain flow between regional markets without reaching the central market is a new phenomenon of grain marketing in Ethiopia.

The consequences of transaction costs of searching for a trading partner on the emergence of the institution of brokerage in the Ethiopian grain market. Brokers facilitate long-distance trade by enabling traders to minimize the risk of commitment failure in a market with little public information, non-standardized grain, no official inspection, and limited legal enforcement (Gebre-Medhin, 1998)

Despite the efforts made by the government to reform the sector, grain marketing systems in Ethiopia are characterized by a lack of modernization, a limited number of large interregional traders with adequate storage and working capital, high handling costs, an inadequate market information system, weak bargaining power, and an underdeveloped processing industrial sector (DAN 2008). As it was experienced an increase in production due to increase in area under crop production and increased yield. Paradoxically, the increase in grain production was associated with increase in grain price. In the recent assessment the factors underlying the grain price increase in Ethiopia attributed the increase to supply deficiency (Mulat *et al.*, 2007).

In general, most of the grain market studies seem to have focused on the impact of liberalization and on price integration between the different market centers of the country.

The studies tend to suggest high spatial and seasonal price differentials, at what extent the different social groups are affected by the changes in grain prices is not known.

### 2.2 Agricultural Marketing Policy and Strategy

Until recently government policies, strategies and investment programs were mainly focused on increasing agricultural production with a little attention to improving the performance of agricultural marketing. Nowadays, the fundamental development objective of the country has been based on building a free-market economic system that enables the country to develop rapidly, extricate from dependence on food aid and enable the poor people to be the main beneficiaries from economic growth. In line with this the government has developed long term and strategic framework to improve the quality of farm product and traded commodities, reduce marketing costs and increase competition in the marketing sector.

Among those policies the policy that encourages the improvement of the role of the market in agricultural development is the one which advocates for the importance of development of market-based agricultural system and improvement of agricultural marketing systems through market driven production system; improving standardization of agricultural products, the supply of market information system, expanding and strengthening cooperatives, and strengthening private sector participation to enable proper functioning of the agricultural marketing system.

Moreover, in order to create effectively functioning agricultural marketing system, Ethiopia developed agricultural marketing strategy in 2005 that encompasses supply and demand sides of inputs and outputs, targeting domestic and foreign markets, development of market infrastructure and information systems, developing and implementing regulatory frameworks, capacity building in terms of skill, knowledge and finance (Dan, 2008). As some study pointed out that since the turn of the millennium, attention has shifted toward more micro-level and institutional policies. In particular, contractual arrangements with downstream processors, agro exporters and retailers, often orchestrated through farmer groups, are increasingly seen as a means of overcoming the market imperfections that led to the failure of macroeconomic and sectorial adjustment policies (Grosh, 1994).

#### 2.2.1 Problems of commodity marketing system in Ethiopia

During the last four decades Ethiopian governments have applied various methods to control commodity marketing system that vary from executing merchants who were accused for hoarding grain and importing of

grain to stabilize market price. These situations indicate the country's effort toward price control through market and non-market instruments. Till today the commodity market is not stable like the year before 1974. Even some studies claim that the price variation is higher since 1991 than the years before that. The problems of commodity market can be summarized in three parts. The first part is the absence of integrated commodity marketing policy that addresses all the processes that involve transport, grading, storage and information facilities for the producer as well as for consumer. The second part is the absence of well-equipped institutional establishment which can provide all marketing services to all market actors. In this regard, all the three government established EGC, AMC and EGTE, with little financial and material support. Unfortunately all these institutions failed to bring relatively stable commodity prices in the country. The last part is the absence of private and public partnership in the commodity market (Berhanu D. Hoekstra and Azage, 2006).

### **2.2.2. Requirements of effective agricultural product marketing:**

Effective marketing of agricultural products is dependent on the creation of conducive circumstances as well as the provision of resources and services. The circumstances required are those supportive of all commercial bargaining and exchanges and consist of institutions and structures to maintain: legal and dispute settling system, financial and credit provision system, standard setting and verification system, price setting and confirmation system. It helps to enlarge production by stimulating consumption, expanding the agro-industry and facilitating industrial growth; improved storage techniques that have been developed by relevant research institute to be adopted and must support to farmers and information and communication capability dealing with products, location, times, types, quantity, prices and any other information required by producers and consumers to make beneficial decisions.

Also, entrepreneurial and technical skills in all facets of the marketing process of relevant products, including the ability to choose between different products, types, seasons, markets, and processing options to maximise farming income, research into product varieties, post-harvest handling, preservation, processing, preparation and presentation (*Ibid*).

### **2.2.3. Importance of Cooperatives agricultural marketing**

Roles of cooperative associations: (1) occupies niches of market development and integrates them into the overall system of capitalism. (2) Change the preferences, habits and characters of their members and thereby trigger economic development and social reform. (3) Manage to exploit local knowledge as an otherwise costly production factor. (4) Ease the pooling of resources and the buildup of power. (5) Establish a class of cooperative entrepreneurs and allow this class to remain independent (Markus H. 2005). Expand personal and community assets. The co-operative model is a valuable and efficient tool for low-income communities, because one co-operative can accomplish many ends. First, co-operatives accomplish key social goals, such as delivering needed services or creating new jobs. Second, they help individuals increase assets. Third, they empower people through a co-operative decision-making mechanism. And finally, co-operatives contribute to overall community wellbeing (Lynne, 2004). Cooperatives and particularly agricultural cooperatives do play a major role in production, primary processing and marketing of agricultural and livestock commodities. The justification for cooperative arises from their potential in maximization of profits, harnessing various skills with members, enhancing advocacy and bargaining power, enhancing financial accessibility, boosting social capital, promoting investment, providing educational opportunities, improving market access and contributing to poverty reduction. Smallholder farmers gain big benefits from agricultural cooperatives including bargaining power and resource sharing that lead to food security and poverty reduction for millions, the UN Food and Agriculture Organization (FAO). Empowered by being a part of a larger group, smallholder farmers can negotiate better terms in contract farming and lower prices for agricultural inputs like seeds, fertilizer and equipment. In addition, cooperatives offer prospects that smallholder farmers would not be able to achieve individually such as helping them to secure land rights and better market opportunities (FAO, 2011). Cooperatives, as economic enterprises and as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members, their local communities, and their countries as well and also reduce inequality and promote equitable sharing of the costs and benefits of sustainable development (Gertler, 2001). But all cooperatives were failed to play such role due to lack of control and support from government and other stakeholders in the study area that resulted discrepancies in market system.

## **2.3 General summary of literatures and review of empirical studies.**

As strategy, improving the efficiency of markets is underlined. In this regard, four areas are especially emphasized: establishing a system of labeling and standards, improving the provision of market information, expanding and strengthening cooperatives, and improving and strengthening the participation of private investors in agricultural marketing. The strategy also stipulates that rural banks be established and expanded to provide financial services to farmers. The development of rural infrastructure, especially roads and telecommunication, is expected to facilitate the development of market-oriented agriculture in the country. Construction of major roads

that connect regions has been given top priority and is the responsibility of the federal system. Rural roads that connect to the main roads and roads that connect districts with kebeles/tabias (small villages) are expected to be constructed by regional governments. Agricultural Marketing Support Agency (TAMSA), mandated to provide agricultural marketing support services to farmers including the provision of market information, identification of potential export markets, and linking farmers with buyers. The Southern Regional State has also established the Export Products Development and Promotion Agency, mandated to identify important exportable commodities, facilitate improvement in production and quality, and link farmers and traders with export market. In line with the market-oriented development strategy and the emphasis to improve the efficiency of the market system, several research programs on agricultural markets are also being undertaken in the country IPMS (2005).

Infrastructural challenges, Managerial and structural problems, knowledge related and socio-economic problems related to participation, efficiency, lack of warehouse; transport; marketing information; weak market linkage, and poor rural infrastructure like road, energy, and agricultural processing, absence of integrated agricultural marketing policy that addresses all the processes that involve transport, grading, storage and information facilities for the producer as well as for consumer. Also absence of well-equipped institutional establishment which can provide all marketing services to all market actors. In this regard, all the three government established EGC, AMC and EGTE, with little financial and material support. Unfortunately all these institutions failed to bring relatively stable commodity prices in the country. The last part is the absence of private and public partnership in the commodity market. In the Ethiopian context, the presence of prohibitively high transaction costs, evidenced by the lack of sufficient market coordination between buyers and sellers, the lack of market information, lack of trust among market actors, lack of contract enforcement, and lack of grades and standards, implies that buyers and sellers operate within narrow market channels, that is, only those channels for which they can obtain information and in which they have a few trusted trading partners. Extensive empirical analyses of Ethiopian market behavior thus reveals that **market actors conduct** business across short distances, with few partners, in few markets, and with limited storage, implying that opportunities for expanding market activity, otherwise known as arbitrage across space (transporting significant distances to market goods) and across time (storing for significant periods), are limited (Gebre-Medhin *et al.*, 2003). In addition to policy incentives, key *interventions* are required to develop appropriate market *institutions* and build needed *infrastructure*, defined together as the “3 I’s of market development” (Gebre-Medhin, 2005). Infrastructure facilities, lack of credit and financial cooperatives, lack of human resources, the lack of clear communication between market actors due to lack of market information and presence of uncertainty in market demand. Besides, market may be efficient in allocating resources at the margin; therefore a Gov’t intervention is crucial in market mechanisms in favor of country’s development. The problems of agricultural marketing can be solved by the establishment of regulated markets with marketing efficiency. According to the review marketing costs in such markets are standardized and practice is regulated. Due to prevailing traditional marketing system in India Assam, the producers are not getting actual prices of their agricultural produces (Manashree and Chanu, 2014). Also, In Keniya (i) the poor quality of produce that farmers deliver combined with the fact that most small-scale farmers find it difficult to deliver in bulk which is ideal for an exchange; and (ii) most of the commodities in Kenya are heavily regulated by boards and are grown and marketed in an environment of struggling cooperatives, which are inefficient, mismanaged and internal bureaucracies (Mukhebi, 2004). To overcome the stated challenges, KACE is supporting smallholder farmers to organize themselves into marketing associations in order to cost-effectively access market and information services provided by the exchange. Qualities of product that farmers deliver, cooperatives, which are inefficient, mismanaged and have cumbersome internal bureaucracies’ access market and information services provided by the exchange are also hypothesized problem and research variable on my research. As stated in the research paper by (Manashree Das, 2014) on marketing challenges of agricultural products from the perspective of rural cooperatives in Qom province factors affecting success of cooperative in agricultural marketing the case of Iran on the researchers finding identified factors and research variables like, Educational factor, Marketing factors, Managerial and structural factors, Economic factors, Infrastructure factors and Participation factors are the main factors among others. Thus the study variables that directly related with the study variables. The other study, conducted by (Muthyalu, 2014) the findings based on t-test analysis indicated that most of the farmers rely on family labor, and use donkey to transport. During the peak harvesting season the price of agricultural products falls quite significantly and found more unstable and market actors namely producers, farm gate collectors, brokers, wholesalers, traders, and consumers play a vital role in the market chain. The major challenges especially in tomato production and marketing are transportation related problems, low price, lack of storage facilities, and lack of market centers.

Also the following are the previous research work carried on agricultural marketing systems that directly or indirectly related with this study.

**Reardon and Barret, (2000)**, in their study suggest that when market reforms the commodity prices raise, stimulating an increase in production, especially of the export crops. The rise in price facilitates the establishment of super market chains, cooperatives, export oriented schemes, processing zones and general

stimulation of agro industrialization in developing countries.

**Hota, et.al. (2002)** in their study viewed that cooperatives marketing occupy an important part in India's economy in terms of their coverage of rural producers, business turnover and contribution to economic welfare of their members as well as to rural economy of India.

**Deshpande and Gopalappa (2003)**, advised to establish an effective price monitoring system including market information kiosks involving information on prices, quality, international trade centers and technology. Statistical system and database should be strengthened to improve the coverage and quality of agricultural marketing related information and to reduce the time lag in its availability.

**Reardon et.al. (2003)** in their study documented that private firms now play a dominant role in countries such as China, India, South Africa in developing of improved seed varieties producing and distributing inputs, post-harvest operations and retailing through super markets.

**Ramkishan, (2004)** in his research paper argued that because of the lack of food processing and storage, the grower is deprived of a good price for his produce during the peak marketing season while the consumer needlessly pay a higher price during lean season.

**Kashyap and Raut, (2006)** in their paper suggested that, marketers need to design creative solutions like e-marketing to overcome challenges typical of the rural environment such as physical distribution, channel management promotion and communication. The "anytime-anywhere" advantage of e-marketing leads to efficient price discovery, offers economy of transaction for trading and more transparent and competitive setting.

**Hashim (2009)** states that efficiency of market, possibility of its discovery and its expansion depends on hardcore physical infrastructure. The most crucial parts are roads (transport links) and electricity. Electricity supply to rural areas, excepting some regions, is inadequate. Cold storage does not work. Transport links in rural India are weak and therefore, cost of transporting perishables is prohibitive. Fortunately, communication system has improved. Infrastructure, efficient information system and availability of credit can go a long way in developing markets for agricultural product without which the next phase of agricultural development will remain stunted.

**Pathak, (2009)** in his research paper stated that the contribution of agriculture in growth of a nation is constituted by the growth of the products within the sector itself as well as the agricultural development permits the other sectors to develop by the goods produced in the domestic and international market.

**Acharya (2011)**, has evaluated the performance of the existing marketing system, institutions and policy in accelerating agricultural development in the country. The article and book contain an incisive analysis with special emphasis on marketing functions, institutions, efficiency, costs and margins, government efforts in the development of agricultural marketing and market research.

These research variables and findings like, marketing facilities, multi-layered middle men, cooperative network inadequacy, imperfection in market mechanism, lack of market information and uncertainty in market demand, the research variable and finding directly and indirectly related with this research issues.

1. Accessibility /infrastructure related factors like road, transportation, warehouse facilities, legal and regulatory, capital or finance related, market linkage Input supply & control, market information and intelligence agro-processing and commercialization can affect efficiency of agriculture marketing system in the study area.
2. Management and structural factors both in cooperative and government organ such as coordination and integration, cooperative member's participation, attitude towards coops, Product quality, and presence of illegal agricultural product marketing traders, Monitoring and evaluation Coordination Low control over local marketing system presence of multilayered intermediaries /brokers highly affect agricultural marketing in the study area.
3. Knowledge related factors such as awareness, Skill, literacy level, training and development on marketing, perception attitude, trust and business ethics among market actors adversely affects agricultural marketing in the study area.
4. Socio-economic factors like income level, occupation, educational status tax system; marketing transaction cost has great impact on agricultural marketing in the study area.

### **3. RESEARCH DESIGN AND METHODS**

This study was descriptive more emphasize on describing and discussing the major challenges and prospects of agricultural product marketing in Konta woreda, Ethiopia. Both qualitative and quantitative data were collected once at a time.

All multi-purpose cooperative societies and agricultural product traders engaged on agricultural marketing in Konta were incorporated.

Concerning the sample size of the study, sample was determined based on the following formula. The formula considering the following assumptions: Margin of error 5%, significance level 95%, and population proportion of 50% (0.5)

$$n = Z^2 * p * q / d^2$$

Where, n = the desired sample size,

Z = standard normal variable at 95% confidence level, which is 1.96,

P = the proportion or estimated characteristics of the target population by giving chance for each Primary coops and also agricultural product traders engaged in marketing with respect to proportion to sample size (0.5)

q = the difference of total percentage of population with estimated characteristics of target population = 1 - p = 1 - 0.5 = 0.5, and

d= level of statistical significance sets (5%) margin of error (0.05).

$$\text{Then: } n = (1.96)^2 * (0.5) * (0.5) / (0.05)^2 = 384.16 \approx 384$$

Since, the sample population is 1863, less than 10,000 population correction formulas were used.

$$n = 384 / (1 + 384/1863.)$$

$$= 384 / (1 + 0.206)$$

$$= 384 / 1.206 = 318,$$

Adding 3% non-response rate the final sample size was 327

In order to gather sufficient information, a structured questionnaire adapted from different literatures was originally prepared in English and translated to Amharic and back translated to English to check for consistency after the data get collected.

Then the gathered data were coded, edited, cleaned, and entered to SPSS version 20. And were analyzed descriptively.

#### 4. RESULTS AND DISCUSSION

From the data gathered we have learned that, the Government is a facilitator and key for market efficiency and cooperative societies are one of the role player market actor in growing economy, having this in mind these two main and important tools are not fully operational concerning the issues being assessed to this end, about 77.2% of the respondents assure that there is a problem on the area of management of both government and cooperatives level

Regarding negative effect of presence of multilayered intermediaries on agricultural marketing the majority of respondents 79.6% agreed that the level of existing brokers or intermediaries higher in magnitude and also presence of them is a major challenge for streamline agricultural marketing. 74.9% of respondents agreed the problems on legislation, regulation and executive control over local market and that affects marketing efficiency.

Moreover, market actors' skill /knowhow gap in the marketing system, shortage of training and development on agricultural marketing and the perception and attitude of whole market actors toward cooperatives hinder market efficiency.

Having a sound market information and linkage, sustainable infrastructure, agricultural marketing advisory service, warehousing facilities, Presence of illegal agricultural product traders, legislation, regulation and control over local marketing system, Presence of multilayered intermediaries /brokers, governmental support towards marketing system, trust and business ethics among market actors, financial sectors development and capital problem, training and development, transaction cost on the marketing system were significantly and independently associated with agricultural marketing system.

For example, those farmers who had market information and linkage were two times more likely to be good in performance compared to those who had no market information and linkage (Prasannakumaran & Rajeswari, 2015).

##### **Prospects of agricultural marketing in the study area**

###### **Expansion of ICT Infrastructures**

Present expansion of ICT infrastructures in the woreda for future might be a great potential and success in the study area agriculture. Yet this is changing with increases in connectivity and affordability of ICT tools. Market information can be provided through a diverse set of mediums including mobile phones, Internet, and radio. Using ICT, especially mobile phones and radio media, farmers can: make more informed decisions on where and when to sell the farm output, Bypass or bargain with middlemen (empowering their negotiation prospects), Make better risk mitigation decisions based on localized weather, and be more aware of more demanded products, scarce agro-inputs, and availing subsidies.

###### **Electricity or power supply to rural areas**

Federal and regional government were aggressively working on electricity supply to rural areas, so as to promote rural production and marketing system. Thus the effort made by either public organ for future might be recognized as better opportunity for agricultural marketing.

### **New direction of Co-operative Marketing**

Even if most of the cooperatives couldn't achieve its marketing goal in the study area, new efforts now made by government to strengthen cooperatives in the study area, that measures have improved the system of agricultural marketing to some extent a major part of the benefits to be achieved. Therefore it is one of the best solutions that forming cooperatives of small and marginal farmers to enable them to obtain fair price for their produce and realize efficient marketing system.

The co-operative society's works on the co-operation basis. It offers facilities to improve agriculture product marketing such as establishment of regulated market, construction of warehouses, provision for grading and standardization of product, standardization of weight and measures, improvement of transport facilities so that the development in agriculture product marketing is very possible and the exploitation of farmers by the middle mans is minimized. A co-operative marketing is thus to store, transport, process the farm goods in the form, at the time and at the place that consumers desire and to supply inputs.

### **5. Conclusion**

Factors (challenges) significantly related with this result were: Infrastructural challenges like market information and linkage, road and transportation access, agricultural marketing advisory service, warehousing facilities and financial sectors development and credit access were dominant factors that directly affected the efficiency of agricultural marketing in the study area and the result meaningfully addressed the research question and general and specific objectives.

In addition to that management and structure related factors such as; Presence of illegal agricultural product traders, legislation, regulation and control over local marketing system, Presence of multilayered intermediaries /brokers, governmental support and intervention towards marketing system, were significantly affected that overall performance /efficiency of agricultural marketing among other factors in the study area and the findings significantly addressed the research question and general and specific objectives.

The main constraints identified are high transaction cost, lack of financial credit, absence of control on unlicensed traders, government support related, unavailability of transport services and high transport shortage, lack of trust in marketing, lack of awareness market actors lack of adequate storage facilities at appropriate locations, and lack of market information.

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