

Determinants of sugarcane price and revenue in Sokoto metropolis, Sokoto state, Nigeria

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ABSTRACT:

Aims: The study was carried out to determine the price and revenue of sugarcane in Sokoto metropolis.

Study design: Purposive sampling technique was used to select *Ramin Kura* market because of the high concentration of sugarcane seller in the market followed by systematic sampling of 50 respondents.

Place and Duration of Study: Sample for the study was obtained at *Ramin Kura* market in Sokotometropolis between February 2012 and December 2012

Methodology: From the list of the sugarcane sellers (comprising 252 registered members) collected from the association of sugarcane sellers at *Ramin Kura* market, systemic sampling was used to select one respondent out of every five interval giving a total of 50 sugarcane marketers that were used for the study. Data collection was done using a structured questionnaire. Data analysis was done using Multiple regression.

Results: The study revealed that while the coefficient of quantity demanded (0.456) had significant positive on the price of sugarcane, distance from source (-1.182) and handling cost (-0.570) had significant negative effects on the price of sugarcane. However, length of stem, tax and storage cost did not have any significant effect on the price of sugarcane at the *Ramin Kura* market. The study also showed that quantity sold (0.719), transportation cost (1.11) and storage cost (0.138) had significant effect on the total revenue obtained by the sugarcane sellers.

Conclusion: Based on the results, it was concluded that quantity demanded, distance from source and handling cost were the main determinants of sugarcane price in Sokoto metropolis. Also, quantity sold, transportation cost and storage cost were the main determinant of sugarcane revenue in the metropolis.

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Keywords: Determinants, Price, Revenue, sugarcane, Sokoto Metropolis

INTRODUCTION

26 Sugarcane (*Saccharum officinarum*) originated from tropical South Africa and
 27 South East Asia. World production of sugarcane stood at 1.5 billion tonnes as of
 28 2008. Currently Brazil is the largest sugarcane producing country.
 29 Nigeria has a suitable land area (800,000ha) for the cultivation of
 30 sugarcane and about 30million metric tonnes can be cultivated annually
 31 [1]. In Sokoto state, sugarcane provides a means of
 32 livelihood to many farmers especially those residing in the rural areas
 33 [2].The major producing local government areas in the state are
 34 Wamakko, DangeShuni, Goronyo, Wurno, Gwadabawa, Tangaza, Gudu,
 35 Kware, Bodinga, and Gada where about 8,000 ha and 7,300 ha of land were
 36 utilised for sugarcane production in 2002 and 2005, respectively [2]

37

38 Sokoto state like many other places in Nigeria, price of agricultural
 39 products are rarely stable especially perishable produce like sugarcane.

40

44 The fluctuation in prices of commodities affects the fortunes of individuals in the
 45 economy. Prices give signal to the producers regarding the commodities to be
 46 produced in the economy and how to earn money and sustain the process of
 47 production. The most common feature observed in agricultural prices is clearly
 48 marked by seasonal pattern of change. Price fluctuation can be caused by the
 49 divergence between planned output and realised output. There is also the
 50 seasonality in production and marketing which also causes price fluctuation.
 51 This is so because most products are characterised by some seasonality

- 52 behaviour in their production and marketing pattern. According to
- 53 [3] there are two types of price variation, the seasonal and the cyclical price
- 54 variation. The seasonal price variations are regular patterns of price fluctuation

that occur within a year. The cyclical price variation is a pattern that repeats itself regularly with the passage of time. A study conducted by Wayas [4] showed that the price of sugarcane was influenced by the distance between the production site and the point of sale, non-motorable roads linking the production sites to the market areas and unavailability of markets around the production site. These factors make it difficult for local farmers to transport sugarcane to far distance places where they can sell at higher prices. The only alternative left for them is to dispose the crops at any price available within their reach. In an open market, the price of sugarcane is largely determined by haggling and visual appraisal of stalk and physical characteristics rather than by measures, such as stalk weight.

Owing to the complexity of pricing, and hence revenue generated from sale, the Federal Ministry of Agriculture and rural development [5] asserts that one of the cardinal objectives of agricultural pricing policy of Nigeria is the stabilisation of prices and revenues to farmers. This may not be unconnected with the profound effect price and revenue fluctuations may have on the growth, equity and stability of the economy. For instance, incomes and living standards of the farmers, labourers and consumers are highly affected by price and revenue fluctuations [6]. This study is therefore, designed to determine the variable influencing the price and revenue generated from sugarcane.

METHODOLOGY

The study was carried out in Sokoto metropolis, Sokoto state. The state

77 consist of 23 Local Government Areas. It is located in the North –Western part
78 of

78 Nigeria and falls within the Sudan Sahel vegetation zone with longitude $11^{\circ}30'$

79 1350 and latitude $4^{\circ}64'$ (LGAs) [7]. The metropolis consists of
80 part of

80 Wamakko, Dange, Kware, Sokoto South and Sokoto North LGAs [8].

81 *Ramin Kura* market was purposively selected

82 because of the high concentration of sugarcane sellers in the

83 market. From the list of the sugarcane sellers (comprising 252 registered members)

84 collected from the association of sugarcane sellers, a systemic sampling was used to select one
85 out of every five interval giving a total of 50 respondents used for the study.

85 Data collected from the respondents covered information on demography, parameters

87 affecting pricing such as distance, handling cost,

88 it also include parameters affecting revenue such as transportation cost,

89 handling cost and years of experience. Data analyses were done using multiple

90 regression. The functional forms of the production function that were used

91 include linear and quadratic, double log and semi-log equations.

92 **Model specification**

93 The general form of the multiple regression model is specified as follows:

94 $Y=F(X_1, X_2, X_3, X_4, X_5, X_6)$ equation 1

95 Where: For factors affecting pricing;

97 $Y=$ Price of sugarcane/kg, $F=$ Functional notation, $X_1=$ Quantity demanded

98 (kg) $X_2=$ Distance from source of sugarcane (km), $X_3=$ Length of stem

99 (cm), X_4 =Handling cost (₦) X_5 =Tax ₦ and X_6 =Storage cost ₦)

100 For factors affecting revenue;

101 $Y =$ Total Revenue (GI-TC) (₦), $X_1 =$ Quantity sold (₦,)

102 X_2 =Transportation cost (₦), X_3 =Years of Experience, X_4 = Handling cost

103 (₦), X_5 = sale Tax (₦) and X_6 = Storage cost (₦)

104 Different functional forms of the model such as linear, Cobb-Douglas and

105 Quadratic functional forms were tried to select the equation with the best

106 fit. Equation selection was done on the basis of R^2 -value, P-value, f-

107 Value, sign and size of the regression coefficients. From the results

108 Obtained, the quadratic functional form appeared to be the best fit in the

109 analysis of factors affecting price while the linear functional form was the

110 best fit in the analysis of factors affecting revenue.

111 In the case of factors affecting price, the quadratic functional form was

112 therefore, specified as follows

113 $Y = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 - B_7X_1 - B_8X_2 - B_9X_3 -$

114 $B_{10}X_4 - B_{11}X_5 - B_{12}X_6 + B_{13}X_1X_2 + U$ equation 2.

115 In the case of factors affecting revenue linear functional form was

116 specified as

117 $Y = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + \dots$ equation 3

118 Where: U = error term, a=intercept, and B_1 - B_6 are regression coefficients.

Results and discussion

120 The Ordinary Least Square (OLS) was the econometric technique used in the

121 estimation of coefficients of the variables for both factors determining price and

revenue for the sugarcane enterprise. Unlike other methods of estimations such as the Maximum Likelihood Estimate (MLE), OLS estimates are unbiased and have minimum variance [9]. Result in Table 1 shows the determinants of sugarcane price in the study area. The Table reveals that an R^2 value of 0.789 was obtained. This means that 78.9% of the variation in the price of sugarcane in Sokoto metropolis is associated with or explained by the variation in the variables included in the quadratic regression equation specified and only 21.1% is accounted for by other factors not captured in the equation.

The table also shows that the coefficient of quantity demanded (X_1) (1.584) is positive and significant ($P = 0.05$) meaning that increase in the quantity demanded will bring about increase in the price of sugarcane. This conforms to observation made by [10]

that an increase in the quantity demanded of a commodity would bring about a corresponding increase in its price. Distance from the source of sugarcane (X_2) also has a negative coefficient (-1.182) and is statistically significant ($P=0.05$). This implies that the closer the source of the sugarcane the higher its price will become. This may be because as sugarcane is

transported from a far distance to the location of sale deterioration may occur, which may bring about reduction in the price. This finding conforms to [11] who observed that deterioration in sugarcane occurs after 48 hours and poor quality due to deterioration attracts low price.

Table 1 further shows that handling cost (X_4) has a negative coefficient(-1.527) and is significant ($P = 0.1$). This is in agreement with the finding of [12] that price of sugarcane in Nigeria is negatively affected by the marketing charges such as transportation and retailing charges. However, Tax (X_5), storage cost (X_6) and length of stem (X_3) do not have any significant effect on the price of sugarcane in Sokoto metropolis.

Table 1: Multiple regression showing determinants of sugarcane price

Variables	coefficient	P value
Quantity demanded (X_1)	0.456**	1.584
Distance from source (X_2)	-1.182**	-1.899
Length of stem (X_3)	0.111 ^{ns}	0.896
Handling cost (X_4)	-0.570*	-1.527
Tax (X_5)	0.106 ^s	0.536
Storage cost (X_6)	0.525 ^{ns}	1.249
R^2	0.789	

Source: Field survey, 2009

Note: **= significant at $P = 0.05$; *= significant at $P = 0.10$; ns= not significant

154 Result in Table 2 shows results obtained for the determinants of revenue from sugarcane
 155 in the study area. The Table reveals an R^2 value of 0.840 which means that
 156 84% of the variation in the revenue obtained from sugarcane sale in Sokoto
 157 metropolis is associated with or explained by the variation in the factors
 158 included in the linear regression equation specified and only 16% is
 159 accounted for by other factors not included in the equation.

160 Quantity sold (X_1) has a significant positive coefficient ($P=.1$). This
 161 implies that increase in the quantity of sugarcane sold leads to a corresponding
 162 increase in total revenue generated from the crop. This agrees with the *apriori*
 163 expectation that there is a direct relationship between the quantity a seller is
 164 able to sell at the market and the amount of revenue he is likely to generate from
 165 the sale. This suggests that sugarcane sellers could increase the amount of total
 166 revenue obtainable through economies of scale, all things being equal. While
 167 [13] observed a 23.3% increase in annual revenue from sugarcane due to
 168 economies of scale, Sluyters [14] did not realised any significant increase in
 169 the revenue of sugarcane associated to the economies of scale.

170 The coefficient of transportation cost (X_2) is positive and significant ($P=.01$).
 171 This implies that there is also a direct relationship between the amount of
 172 money spent on transporting the commodity to the market and the total
 173 revenue generated. The reason may not be farfetched because sugarcane sellers

normally increase the price of the commodity whenever there is an increase in the cost of transportation probably due to increase in the price of petrol. However, the rate of commodity price increase by the sellers is usually much more than what is required to cover the extra cost due to petroleum increase. Hence, they tend to gain more revenue from the price fluctuations. The coefficient of cost of storage (X_6) is also positive and statistically significant ($P=.05$) meaning that the more the amount of money spent on storage the more will be the total revenue. This may not be unconnected with the fact that, spending more on storage translate into adding more value to the commodity which in turn manifest into more revenue due to more value addition. [15] reported similar significant positive correlation ($P=.01$) between cost of storage and total revenue realised from sale of agricultural produce.

Table2:Linear regression analysis of determinants of revenue

Variables	Coefficient	T-ratio
Quantity sold (X_1)	0.719*	1.628
Transportation cost (X_2)	1.117***	0.660
Experience (X_3)	-0.067 ^{ns}	-0.900
Handling cost (X_4)	0.337 ^{ns}	0.791
Tax (X_5)	0.105 ^{ns}	1.096
Storage cost (X_6)	0.138**	1.888
R^2	0.840	

Source: Field survey, 2009.

Note: Note: ***= significant at $P = .01$; **= significant at $P = .05$; ***= significant at $P = .10$; ns= not significant

Conclusion

In conclusion, it was observed that quantity demanded, distance from source, handling cost and storage cost were the main determinants having significant influence on the price of sugarcane in the study area. Similarly, quantity sold, transportation cost and storage cost were the major determinants affecting the total revenue of the sugarcane sellers in the study area. Based on the results, it is recommended that sugarcane sellers

195 should increase the quality supplied in the market to offset changes in
196 the market demand so as to prevent and/or reduce price fluctuation. The
197 increase in quality supplied shall also bring about increase in revenue
198 generation via economies of scale. The association of sugarcane sellers
199 should make an effort to source loan for their members so as to improve
200 on the marketing activity.

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