Small-holding farmers and exploitative role of intermediaries

22nd January 2021

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Agriculture is the world's largest industry, employing more than one billion people. It's always been at the heart of development, human wellbeing, and it is central to economic growth. Within the agriculture sector role of smallholding farmers is very crucial in terms of food security, reducing poverty, and addressing different dimensions of sustainability (economic, social, and ecological).

At large, Smallholding farming is a very diverse sector and difficult to define. It has been defined in different ways by different organizations. The World Bank Rural Development Strategy defines small farmers as those who have less than 2 hectares (ha) of cropland and with a low asset base (World Bank, 2003) whereas The Food and Agriculture Organization (FAO) considers smallholders as farmers who have limited resources relative to other farmers in the same sector. But the most common measure defines small farmers as those who have less than 2 hectares of cropland.

According to the FAO 2014 report, worldwide there are approximately 570 million small farmers with less than 2 hectares of landholding, 74% of these are located in Asia and the Pacific region. The contribution of the smallholders to world agriculture output particularly in the developing countries (provide 80% of food) is quite significant and they are contributing towards livelihood and food security. Despite the central position occupied by smallholder, they have been facing many challenges which are not only affecting their livelihood but also pose a threat to world food security. One of these issues is exploitation at the hands of intermediaries (middlemen, whole-sellers, retailers, and brokers).

Where does the problem lie?

In developed markets, intermediaries play the role of institutions between producers and consumers, however, in the majority of the developing countries, the market system in the agriculture sector is controlled by the intermediaries and their role is quite exploitative. The entire supply chain is dominated by intermediaries and small farmers face several issues starting from field to market. After crop harvesting, small producers usually don't have access to the market and they left with no choice except to sell their produce at the farm at a very low price compare to the market. Secondly, those who get access to the market can not dictate the price due to the small quantity and force to sell their agriculture produce to intermediaries at a marginal price. The intermediaries, in turn, sell these products at a relatively high price in the market and get maximum profit without investing anything. According to the FAO, intermediaries on average make 20 times higher than what the framers received which translates into disproportionate large profit margins at the expense of the farmer.

Due to poor economic conditions the small farmers usually unable to buy seed, fertilizer, and other inputs during the cropping season. The tough borrowing conditions from financial institutions like banks make conditions worse and farmers left with no choice but to get an advance loan from the middle market players to cover their cultivation cost. Usually, these players get their loan in the form of produce after the harvesting well below compares to the market price.

Majority of the time, farmer's input cost per hectare is very high due to pesticide, fertilizer, land preparation compared to the sale price and farmer has less or no incentive to produce which not only results in low crop yields but also decrease in agriculture output thus translating into increased prices at the consumer end.

This multilayered system of intermediaries elongates the supply chain, which translates into low prices for the farmers, high for the consumers, and ultimately producers and consumers are bearing losses.

What can be done?

The market is driven by demand whereas smallholders live in the world of cost and benefit. Establishing linkages of small farmers with processors, factories and the retail chain will not only benefit farmers but also businesses. In the current structure, these intermediaries are acting as buyers and sellers between the two ends and making most of the profit.

There is a need to have policies at institutional levels where the role of intermediaries can be skeleton, where smallholders get an opportunity to sell their products at the appropriate price. It will also ultimately help buyers (consumers) to get food at a cheap price.

Alternative options such as contract farming, opportunity to sell directly to the companies or in the competitive market should be provided to the farmers so that they can get a better price for their produce.

Poor infrastructure in developing countries is considered one of the major obstacles for small farmers to bring their produce to bigger markets. So the improvement in infrastructure will help farmers to connect easily to wider areas and will give them a choice to sell somewhere else at a better price.

With the emerging trends in technology, availability of mobile phones, and access to the internet could create huge advantages for the farmers. The use of technology is already helping to reduce price discrepancies and filling the gap between small and large-scale farmers. A recent example of a startup is M-Farm a Kenya-based startup that uses SMS technology and an online platform to empower small farmers in terms of price and connecting local farmers with one and another and to compete corporate farmers. It has been proved very successful in eliminating middlemen role, providing transparency, and enabling farmers to negotiate prices.

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