

# The Impact of Intermediaries on Small Farmers' Profits in India

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**ABSTRACT:** This study delves into the intricate relationship between intermediaries and small farmers in India's agricultural sector, focusing on how these intermediaries affect the financial outcomes for farmers. In a context where small farmers face numerous challenges in accessing fair market prices, intermediaries such as traders, middlemen, and processors play a crucial role. The research aims to assess the impact of these intermediaries on small farmers' profits through a comprehensive analysis of the agricultural value chain.

**KEYWORDS:** Farmers, Middlemen, intermediaries, Agricultural Marketing

## I. INTRODUCTION

In our rapidly changing agricultural landscape, we've noticed a pressing issue affecting small farmers in India. The struggle for fair profits has become increasingly challenging, with intermediaries often playing a significant role in this complex market system. We believe it's crucial to examine how middlemen influence the earnings of small and marginal farmers, as this has a direct impact on rural development and poverty reduction. To tackle this problem, we'll explore the intricacies of the Indian agricultural supply chain and dive into the dilemma posed by intermediaries. We'll also look at innovative solutions, including e-commerce initiatives and agri-tech breakthroughs that aim to improve market access for small scale farmers. By examining these aspects, we hope to shed light on potential ways to boost sustainability, enhance price transparency, and ultimately increase the profits of small farmers in India's agricultural markets. Given the pivotal role of agriculture in the Indian economy and the vulnerability of small farmers,

understanding the dynamics between intermediaries and farmers is crucial.

## Understanding the Indian Agricultural Supply Chain:

We've observed that the Indian agricultural supply chain is a complex network connecting rural and urban India. It's estimated to be worth \$800 billion and is expected to surpass \$1 trillion in the next three to four years. This massive food economy involves about 150 million farmers from over 600,000 villages, who grow food to feed more than 1.3 billion Indian consumers and export approximately \$50 billion worth of produce to the rest of the world. The journey from farm to fork is a long and intricate process. A single piece of fruit must travel from the farm to a processing unit, then to temporary storage, before finally reaching retail. This multi-layered system typically involves five to eight intermediaries between the farmer and the consumer, leading to fragmentation, increased costs, and wastage.

**Key Players:** The Indian agricultural supply chain comprises various segments and stakeholders:

- **Production:** This includes farmers, input suppliers (seeds, crop protection, fertilizers), agronomy experts, equipment manufacturers, farm labor, and Farmer Producer Organizations (FPOs)
- **Processing:** This segment involves factories, mills, Self Help Groups (SHGs), FMCG companies with their own processing units, and cooperative societies
- **Market:** The final sale of agricultural produce involves end consumers, the food & beverage sector, exporters, government, and various forms of trade (traditional and modern)

- Supply Chain: This segment includes collection points, farm-level aggregators, mandis, logistics providers, warehousing, and cold storage facilities
- Financial Institutions: Banks and NBFCs provide credit, insurance, and commodity hedging services across the value chain

## II. OBJECTIVES OF THE STUDY

- To identify and analyze the role of intermediaries in the agricultural value chain of small farmers in India.
- To explore alternative models of market engagement that could enhance small farmers' bargaining power and profitability.

## III. METHODOLOGY

This study is a comprehensive analysis of role of intermediaries in the agricultural marketing and profitability of farmers'. This is a descriptive study. Researcher was use the secondary data. Additionally, researcher has incorporated information from journal articles, Indian government publications, and peer-reviewed journals in agriculture and technology and various websites in the composition of this paper.

## IV. INEFFICIENCIES IN THE SYSTEM

Despite India's self-sufficiency in food production, we've noticed several inefficiencies in the agricultural supply chain:

- Low Farmer Income: Despite the size of the Indian food economy, the farmer's share in consumer price remains low, at 35 to 40 percent
- Post-Harvest Losses: India loses approximately \$14 billion worth of food annually due to poor cold chain facilities and disorganized logistics. There's a significant shortfall of 90% in cold storage facilities across the country
- Low Productivity: Farm yields in India are generally below world averages due to factors such as inadequate farmer education and training, heavy government regulation, an inefficient food distribution system, and poor infrastructure.
- Supply Chain Disruptions: Since late 2020, increased consumer demand, exacerbated by the COVID-19 pandemic and global events, has placed extraordinary pressure on India's food and agricultural supply chains.
- Environmental Concerns: Intensive cultivation practices have led to environmental degradation, including fast-depleting water

resources and soil contamination due to unabated use of fertilizers and agrochemicals.

To address these challenges, we're seeing efforts from both the government and private sector to streamline the supply chain, improve infrastructure, and implement technological solutions. However, there's still a long way to go to create a more efficient and equitable agricultural supply chain in India.

## V. THE MIDDLEMAN'S DILEMMA

In our exploration of the Indian agricultural landscape, we've come to recognize the complex role intermediaries play in the supply chain. The middleman's dilemma presents a nuanced picture of necessity and exploitation, profit distribution, and value addition.

**Necessity vs. Exploitation:** We've observed that intermediaries serve a crucial function in the agricultural ecosystem. They provide essential services such as transportation, storage, and distribution, bridging the gap between farmers and consumers. This is particularly important for small farmers who often lack the resources and expertise to handle these aspects of the supply chain. However, we've also noticed that the current system can be exploitative. In many developing countries, including India, the market system in the agriculture sector is controlled by intermediaries, often to the detriment of small farmers. The lack of competition in agricultural markets has emerged as a central policy concern over the last decade.

**Profit Distribution:** The profit distribution in the current system is significantly skewed. According to the FAO, intermediaries on average make 20 times higher than what the farmers receive, translating into disproportionately large profit margins at the expense of the farmer. This imbalance is particularly stark for smallholder farmers, who account for 86% of farmers in India but remain economically impoverished. We've found that several factors contribute to this inequitable distribution:

- Limited market access for farmers
- Lack of price transparency
- Poor storage facilities
- Inefficient logistics

These factors often force farmers to sell their produce at low prices, while intermediaries can sell the same products at much higher prices in the market.

## VI. VALUE ADDITION

Despite the challenges, we recognize that intermediaries do add value to the agricultural supply chain. They provide several crucial services:

- **Risk absorption:** Intermediaries often pay farmers before they themselves get paid, absorbing the risk of crop failure or price fluctuations.
- **Aggregation:** They serve as aggregators, collecting produce from many small farms, which is essential given the fragmented nature of Indian agriculture.
- **Market linkage:** Intermediaries provide connections to wholesale markets that many farmers, especially small-scale and rural ones, cannot easily access.
- However, we've noticed that the current system also creates inefficiencies. The mixing of produce from many farms undermines price premiums for higher quality produce, reducing incentives for farmers to invest in post-harvest processing.
- To address these challenges, we're seeing the emergence of technological solutions. B2B buyer-supplier matching platforms and Mandi Automation are expected to be game-changers that could drive significant value creation.
- These solutions aim to enhance price transparency, improve market access for farmers, and streamline the supply chain.

Intermediaries play a necessary role in the agricultural supply chain, there's a pressing need to address the exploitative aspects of the current system. We believe that a combination of policy reforms and technological innovations can help create a more equitable and efficient agricultural market in India.

## VII. TECHNOLOGICAL SOLUTIONS FOR DISINTERMEDIATION

We've observed that technological advancements are playing a crucial role in addressing the challenges faced by small farmers in India. These innovations aim to disinter mediate the agricultural supply chain, providing farmers with direct access to markets and consumers. Let's explore some of the key technological solutions that are reshaping the agricultural landscape.

**E-commerce Platforms:** We've noticed a significant rise in e-commerce platforms tailored for the agricultural sector. The Indian e-commerce market, valued at \$64 billion in 2020, is expected to grow to \$200 billion by 2027. This rapid growth has the potential to transform Indian agriculture, which accounts for 18.3% of India's GDP.

E-commerce platforms in agriculture offer several benefits:

- **Waste Reduction:** By minimizing intermediaries and improving access to efficient transportation and storage facilities, e-commerce can help reduce post-harvest waste. This is crucial, considering that approximately 5.5% of cereals, pulses, and oilseeds, and 11% of fruits and vegetables are lost due to inefficiencies in harvesting, handling, and storage.
- **Financial Inclusion:** These platforms can help farmers build a 'digital history' of transactions, potentially improving their access to credit. Digital credit systems based on this data can offer loans with lower transaction times and costs compared to conventional credit.
- **Improved Cost and Market Efficiency:** E-commerce can provide farmers with access to higher-quality inputs and wider markets, potentially increasing their profits. For instance, a study in Uganda found that a mobile phone-based marketplace led to increased trade flows and reduced price dispersion across markets.

**Direct Farmer-Consumer Connect:** We've seen the emergence of innovative platforms that facilitate direct connections between farmers and consumers. One such example is the Harvesting Farmer Network (HFN), which emerged during the COVID-19 lockdown. This network helps farmers across the country sell crops and make better profits by reducing the role of middlemen. Key features of these direct connect platforms include:

- **Transparency:** They provide consumers with information about the produce's origin, farming practices, and pricing, building trust and encouraging fair pricing.
- **Wider Reach:** Farmers can showcase their produce to a broader customer base, potentially expanding their market regionally or even nationally.
- **Higher Profits:** By eliminating multiple layers of middlemen, farmers can potentially earn a larger share of the final selling price.

**Block chain in Agriculture:** We've identified blockchain technology as a promising solution for

creating a transparent and efficient agricultural supply chain. Blockchain can address several challenges in the sector:

- **Traceability:** Blockchain's inherent traceability nature can help reduce food recalls and increase food safety.
- **Sustainability:** It can facilitate accurate determination of carbon emissions and taxes, encourage recycling programs, and improve the efficiency of emission trading schemes.
- **Fraud Prevention:** A blockchain-based data management system can reduce the chances of food fraud and adulteration, thus improving sustainable.
- **Transparency:** Blockchain can act as a digital platform providing authentic information on the provenance of agricultural products.

While these technological solutions show great promise, we recognize that challenges remain. These include the need for investment in technology and infrastructure, logistical support for timely deliveries, and the need to comply with local regulations related to agricultural sales, food safety, and e-commerce. However, with the right strategies and support, these innovations have the potential to empower farmers, promote sustainable farming practices, and create a more equitable agricultural market in India.

### VIII. CONCLUSION

The struggle of small farmers in India to secure fair profits has a significant impact on rural development and poverty reduction. The complex agricultural supply chain, with its multiple intermediaries, plays a crucial role in this challenge. However, technological advancements are paving the way to address these issues. E-commerce platforms, direct farmer-consumer connections, and blockchain technology are showing promise to improve market access, boost transparency, and increase profits for small-scale farmers. To wrap up, the path forward involves a mix of policy changes and tech innovations to create a fairer and more efficient agricultural market in India. By leveraging these solutions, there's potential to empower farmers, encourage sustainable farming practices, and build a more equitable food system. While hurdles remain, the ongoing efforts to streamline the supply chain and implement tech solutions offer hope for a brighter future for India's small farmers.

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