My say: Can middlemen be eliminated, especially in the agriculture and fishing sectors?

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With the exception of direct dealings or one-to-one transactions, no exchange can materialise without middlemen. Middlemen can be “eliminated”, but not their functions.

Even in the shortest supply chain, say online buying, middlemen are needed at some points along the chain. For instance, a broker is needed to match orders and supplies, warehouses for storage and transporters for shipment.

Marketing involves the transfer of a product or service from the point of production to consumption. In between these two points, there exist numerous functions. They include exchanges (buying and selling), physical functions such as storing, packaging and transporting, financing, pricing and risk-taking (for example, insurance and hedging) and market information.

All these functions need people to take charge, and those people are “middlemen”.

From the described functions, there are two types of middlemen. First, the merchant middlemen such as dealer, wholesaler and retailer. Second, fundamental middlemen comprise mercantile middlemen and facilitating middlemen. Mercantile middlemen include brokers, commission agents, forwarding agents and clearing agents. Facilitating middlemen are those in, for example, banking, insurance, warehousing and transporting.

Depending on the products and services, the role of “middleman” takes many forms over time and space.

Middlemen by any other name would still perform “middlemen” functions.

In the case of agricultural commodity marketing, however, the term “middlemen” largely refers to merchant middlemen, particularly dealers, wholesalers and retailers. This is because the marketing activities of primary produce involve minimal processing. Thus, fundamental middlemen such as insurance agencies are almost non-existent in industry, with the exception the sectors of commodities such as crude palm oil or rubber, which are traded in futures exchanges. In some cases, there are middlemen processors such as rice millers in the padi and rice supply chain. A middleman, also known as an intermediary, helps facilitate the exchange of goods between consumers and producers of products.

The marketing structures of agricultural and food commodities share a common archetype — that is, the shape of the structure is likened to an “hourglass”. At the bottom, there are large numbers of producers; in the middle, there is a concentration of a small number of wholesalers, each having a big share of the market. The retailers are divided into a number of categories: hypermarkets, supermarkets and small-time retailers. The small-time retailers are large in number compared with the wholesalers. At the top are the consumers, which are basically the population at large.

In the case of padi and rice marketing, at the bottom, there were 197,189 farmers, millers (175), wholesalers (1,618), importer (one or monopoly), retailers (27,914) and consumers (31.9 million) in 2016. The structure is slim and highly concentrated in the middle.
In the case of rice, fruits, vegetables and fisheries marketing, middlemen are crucial in many ways. They are the “connectors”: connecting the farmers or fishermen to the market. Through them, market prices and consumers’ preferences are transmitted to the farmers. In an area in which farmers are isolated, middlemen are their windows to the faraway market, local and overseas.

Dependent on middlemen

Middlemen are still the major source of credit for farmers, and it is tied to their sales to the middlemen. This relationship has existed for decades and is still functioning even in modern times, despite the existence of options such as Bank Pertanian and other credit houses.

Middlemen perform the marketing functions for the farmers too — buying produce from the producers and either selling it to the wholesalers or processing them.

First-level middlemen also act as last-resort creditors to farmers in times of financial desperation, providing funds for reasons such as expenses for children’s education and social functions such as ceremonies. This credit is on top of production credit to buy fertilisers, machines, chemicals and so on. This informal credit is without collateral, requires no documents and is accessible any time.

The credit service is highly flexible and tailored to the economic and social needs of the farmers.

In short, middlemen perform the marketing-cum-creditor role to the producers, functions that they have performed for umpteen years.

This symbiotic relationship is consensual and mutual, but not necessarily win-win. In fact, it is an asymmetrical relationship.

Empirical analyses have shown that, generally, the small producers are being exploited through lower price offerings and a higher rate of interest, which is deducted from the proceeds of producer’s sale to the middlemen. Owing to poor sales proceeds, their income has not improved and they remain in the poverty trap.

There have been cases in which up to 75% of the proceeds from padi were deducted because of “poor quality”. In other words, farmers received only a quarter from sales of their padi. Some studies have shown that the deduction rates for padi at times are purposely overestimated by the buyers to safeguard their profit margins.

Farmers are usually aware of the exploitation, but circumstances force them to be dependent on middlemen for marketing and credit services at whatever cost that is set by the middlemen.

In fact, there have been cases in which the producers, unable to repay the loans from the middlemen, were forced to sell their harvests to them to repay the loans, sometimes for life.

Why, then, does this relationship persist despite the exploitative behaviour of the middlemen?
The reason lies in the asymmetric situation between the two parties. That is, the small farmers are mainly poor and need credit to sustain their livelihood. Distance and the lack of an alternative cause them to be dependent on the middlemen to help market their produce.

Besides, the farmers have very little access to market information compared with the dealers, who have a wide business network.

In other words, the farmers are plagued with the poverty syndrome, comprising factors such as low income and low productivity, leaving them with low bargaining power.

On the other hand, the buyers or middlemen are relatively financially strong, as they are flush with capital and operate in the large-scale businesses of buying and selling. The farm-level market is also concentrated with very limited competition. For instance, padi farmers face a limited choice of buyers, as their choice is limited to one or two large-scale millers, including Bernas’ mills.

History has shown that firms in a concentrated market have the tendency to be exploitative to maximise profit because of the market power that they possess.

Solution in cooperatives Farmers cannot do without middlemen, but they can shorten the supply chain.

To address the asymmetric market power situation between the two, farmer cooperatives are the best solution for the small farmers. Under the umbrella of cooperatives, small farmers can gather strength through a bigger voice to bargain with big-time dealers or millers. Cooperatives provide more benefits such as entrepreneurship training and community spirit.

By having a cooperative vehicle, the farmers can be middlemen themselves by selling directly to retailers and consumers. The cooperatives can take advantage of the development of information and communications technology (ICT) to gain access to market information and expand their business beyond the traditional spheres of the local market.

It is proposed that a new-generation cooperative is embraced — the forward integrated cooperative to encourage value-added activities such as milling and processing. These activities will improve the cooperatives besides other social and economic benefits.

To facilitate the new-generation cooperative, it must be supported with innovations that are suitable for small farmers such as ICT and Internet of Things applications for business and marketing, small gadgets and machines or mills. Incentives must be provided to the cooperatives to jump-start their business.

Middlemen cannot be eliminated, but the supply chain can be shortened through forward integrated cooperatives among the small farmers for higher income and sustainability.

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