



# AGRI MAGAZINE

(International E-Magazine for Agricultural Articles)

Volume: 03, Issue: 04 (April, 2026)

Available online at <http://www.agrimagazine.in>

© Agri Magazine, ISSN: 3048-8656



## Bridging Fields and Markets: The Role of Middlemen in Agriculture

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In agricultural marketing, middlemen are essential since they link producers to markets and customers. They oversee produce collection, transportation, storage, and sales, guaranteeing the supply chain runs well. The stages of intermediaries development, their significance, the reasons behind their higher earnings, the effects of their removal, and substitute systems that can help farmers market their produce more successfully are all explained in this article.

### Introduction

The farm gate is not the end of agriculture. From a freshly harvested crop to a consumer's table, the process is lengthy, intricate, and fraught with informational, financial, and logistical difficulties. A varied array of economic actors known as middlemen, or more technically, agricultural intermediaries, stand between producers and consumers. Although their function is neither straightforward nor often acknowledged, they are essential to the majority of rural economies. It is necessary to look past the common belief that middlemen are exploitative, profit-driven individuals in order to comprehend their role in agriculture. They actually carry out real economic services: they transport commodities, take on risk, offer credit, and link remote rural producers with far-off urban markets. However, certain intermediaries may be able to take excessive margins at the expense of farmers due to structural asymmetries in bargaining power, information asymmetry, and insufficient competition.

### Who are agricultural middlemen?

The phrase "middleman" refers to a broad range of individuals who work at various stages of the agricultural value chain. In its most basic form, produce is gathered from farmers and sold to a wholesale market by a village trader or commission agent. Retailers display the finished product to customers, processors convert raw materials into finished goods, and wholesalers aggregate supply from various sources farther along the chain.



These roles frequently overlap in underdeveloped economies. One trader may serve as a lender, a carrier, and a storage provider all at once. Each function is typically divided into independent commercial organizations in more formalized contexts. Crop type, nation, and market maturity all have a substantial impact on the structure of intermediation.

## Why middlemen are needed in the market

The existence of middlemen is a result of economic need rather than chance. Economists refer to the time, effort, and money required to find customers, negotiate prices, guarantee quality, arrange transportation, and enforce agreements as "high transaction costs" in agricultural markets. It is just not possible for a smallholder farmer in a rural village to handle all of this on their own for each sale. These are the exact things that middlemen specialize in, and their expertise increases the efficiency of the entire supply chain. Several concrete reasons explain why middlemen remain indispensable in most agricultural markets:

- **Market connectivity:** Farmers are frequently geographically separated and cut off from metropolitan consumer areas, especially in developing countries. Produce from numerous small farms is combined and transported in large quantities to far-off wholesale or retail marketplaces via a middleman, a logistical task that most individual farmers are unable to complete on their own.
- **Storage and preservation:** Produce from farms is extremely perishable. In order to reduce post-harvest loss, middlemen, particularly wholesalers and traders, frequently own or run storage facilities such as warehouses, cold rooms, and grain silos. A large amount of agricultural produce would spoil before it could be consumed without them.
- **Price discovery:** Middlemen offer the price signals that direct production decisions while also keeping an eye on several marketplaces. A farmer who seldom leaves the hamlet is less familiar with current market rates than a trader who frequently travels to both the farm and the city. Despite its flaws, this pricing information function aids in distributing goods to areas where it is most valuable.
- **Seasonal credit and input supply:** For millions of smallholders around the world, this interconnected credit-trade system—which is vulnerable to exploitation—is their only source of accessible financing. In rural areas without formal banking, traders often advance seeds, fertilizer, or cash to farmers before the harvest, recovering the cost when they purchase the crop.
- **Risk buffering:** A merchant assumes the risk that prices may drop before the items are resold when they buy produce during harvest. In return for prompt payment, the farmer transfers this pricing risk. This predictability has quantifiable economic worth for low-income households without savings or insurance.

## What happens if middlemen are absent?

There isn't always proof to back up the presumption that farmers would gain from doing away with middlemen. The removal of middlemen can have extremely disruptive effects if sufficient alternative infrastructure is not built.

- **Market collapse and post-harvest losses:** Perishable goods, particularly fruits, vegetables, milk, and fish, quickly spoil in the absence of someone to gather and deliver them. Farmers risk catastrophic losses if they are unable to promptly reach urban markets. Farm-gate surpluses and urban shortages coexisted in nations where abrupt policy changes aimed to eradicate traders overnight.
- **Loss of storage and credit access:** The credit lines that traders offered vanish when they leave a market. Farmers may not be able to get ready for the upcoming growing season if they depend on advance payments for input purchases. Farming enterprises have historically contracted or collapsed due to the sudden withdrawal of informal finance, especially among the most vulnerable smallholders.
- **Price volatility:** In the supply chain, middlemen serve as buffers by purchasing when supply is abundant and selling when demand increases, so reducing sharp price fluctuations. Without its moderating role, consumer prices could plummet during crop gluts and soar significantly during lean seasons, hurting both farmers and consumers.
- **Increased transaction costs for farmers:** When a cooperative is marketed as an alternative to intermediaries, it has to execute the same marketing, storage, and transportation tasks as the trader. These expenses just change; they don't go away.

According to research from the Center for Global Development, the net economic gain to the farmer is sometimes significantly less than expected if a cooperative has to pay for the same services that were previously supplied by middlemen.

### Can farmers market their produce alone?

Yes, in theory, but in reality, a lot relies on the farmer's size, location, access to technology, and kind of produce. Farmers have long used direct marketing; prior to the invention of refrigeration and contemporary transportation, the majority of farmers sold directly to neighboring stores or local customers. Many farmers switched from direct sales to contractual wholesale purchasers when large-scale wholesale infrastructure developed in the middle of the 20th century. Direct-to-consumer (DTC) business methods are currently seeing a resurgence. Producers can sell directly and earn a larger portion of the retail price through farmers' markets, roadside farm stands, online e-commerce platforms, and community-supported agriculture (CSA) programs. According to research, direct-market farmers report higher levels of job satisfaction and more control over price.

#### Advantages of direct selling

- Higher profit per unit sold
- Direct consumer feedback
- Price-setting autonomy
- Faster payment cycles
- Stronger brand loyalty

#### Challenges and limitations

- Limited scale and volume
- Marketing skill requirements
- Logistics and delivery costs
- Time taken away from farming
- Rural internet access gaps

For the majority of smallholders, however, the limitations are real and substantial. Building a clientele, handling order fulfillment, packing, adhering to food safety rules, and maintaining a steady supply are all tasks that need time, expertise, and resources that many rural producers just lack. According to research from Cambridge University, farmers that sell directly to retailers encounter unique challenges with regard to processing standards, volume needs, and food safety compliance. As a result, the verdict is conflicting: farmers who are well-resourced, commercially focused, and digitally linked may increasingly avoid middlemen with positive outcomes. However, full disintermediation is still more of an ideal than a short-term reality for most smallholders in developing nations. For the majority, a hybrid model—selling a portion directly but still depending on traders for the majority of their output—is the most practical course of action.

### How middlemen earn more than the farmer and the end seller

The disproportionate share of value that middlemen receive in comparison to the farmer who grows the food and, occasionally, even the retailer who sells it, is one of the most enduring and valid criticisms of agricultural intermediation. Examining the institutional factors that favor intermediaries is necessary to comprehend how this occurs.

- **Information asymmetry:** A middleman who goes to several wholesale markets every day is fully aware of the commodity's price in the city. A farmer who doesn't often leave the community doesn't. Due to this knowledge gap, traders are able to offer prices that are far lower than the competitive rate, which the farmer accepts because he has no benchmark. Research conducted in India and Sub-Saharan Africa revealed that farmers' negotiated farm-gate prices improved dramatically when they were provided with real-time price data via mobile phones.
- **Monopsony power:** Local procurement is sometimes controlled by a single dealer or a small cartel of traders in distant places. Farmers deal with what economists refer to as a monopsony—a market with just one buyer—when there is no other buyer within reach. The farmer has no negotiating leverage; the trader decides the price. When it comes to perishable items, the farmer has to sell them fast or risk losing the entire harvest.

- **Layered margins:** Every player in a typical multi-tier chain adds a margin: farmer → village trader → wholesaler → processor → retailer. A phenomenon known as "double marginalization," in which both buyers and sellers within the chain exercise market power and further reduce the farmer's share, has been established by research. Farmers may receive as little as 20–30% of the final retail price in reported circumstances from high-value horticultural chains.
- **Interlinked contracts:** A dealer would frequently concurrently fix the purchase price for the upcoming harvest as a condition of pre-season credit to a farmer. Even when the nominal terms seem reasonable, these agreements might have a very high effective interest rate. Regardless of whether there are better offers, the farmer is socially and legally obligated to sell to that trader.
- **Value-adding activities:** Additionally, it is important to recognize that a percentage of the middleman's margin represents the actual economic value they provide, including risk-taking, transportation, cleaning, grading, packing, and storage. The middlemen who purchase farm products at low costs and resell them to customers at much higher prices make the real profit, yet some of this difference is justified payment for services provided. The issue occurs when the margin is significantly higher than the cost of those services, which is only feasible in the absence of competition.

### **Economic functions of intermediaries**

Economically speaking, middlemen are necessary since markets are not entirely efficient. In agriculture, transaction costs—the expenses of locating buyers, negotiating prices, guaranteeing quality, and upholding contracts—are significant. Reducing these expenses is the specialty of intermediaries. They attain economies of scale in market knowledge, transportation, and storage by concentrating commerce in their own hands. Absorption of danger is another essential role. Weather, price fluctuations, and post-harvest losses put farmers at serious financial risk, making agricultural production essentially unpredictable. This price risk is effectively transferred away from the farmer by traders who buy produce during harvest. This certainty has actual value, especially for smallholders who have limited access to formal insurance or savings mechanisms, even though the farmer may earn a lesser price as a result.

A third important function is the providing of credit. Banks are either nonexistent or provide smallholder farmers with poor terms in many rural areas. Informal traders frequently fill this gap by offering seasonal credit in return for the right to buy the farmer's produce; this arrangement is also referred to as "interlocked contracts." For millions of farmers globally, this arrangement is the only available loan alternative, even though it has the potential to further entrench debt reliance.

### **Market information and price discovery**

Information is one of a middleman's most potent advantages over a farmer. While subsistence or semi-commercial farmers frequently lack access to real-time price data from numerous markets, traders usually do. Because of this information asymmetry, middlemen can buy low and sell high, earning a margin that would be far lower in a market with absolute transparency.

### **Criticisms and structural challenges**

Middlemen have long been criticized despite their usefulness, especially in developing nations. The most prevalent issue is market concentration: farmers have few options and are compelled to accept prices that are far below levels of competition when a small number of traders control local procurement. Farmers are immediately under pressure to sell perishable crops at any price, which is particularly detrimental. Exploitative intermediaries and retail chains that control marketplaces to disenfranchise farmers, small retailers, and consumers are among the most frequent grievances regarding food supply chains. Even when nominal loan

terms seem reasonable, the effective interest rate buried in pre-harvest credit agreements may be very high, and interlocked credit-trade connections can trap farmers in debt cycles.

### Recent updates: middlemen in agriculture (2024–2025)

Technology, regulation, and market factors continue to shape and dispute the role of agricultural intermediaries. The years 2024–2025 have seen a number of noteworthy happenings.

- **Digital disintermediation is accelerating:** E-commerce sites that link farmers and consumers directly are expanding at a rate never seen before. With a compound annual growth rate of 8.4% from 2024 to 2033, the agricultural e-commerce market is expected to reach USD 90.1 billion. Farmers can now connect with buyers without the need for traditional middlemen thanks to platforms that combine blockchain traceability, AI-driven inventory management, and mobile apps.
- **Direct-to-consumer models are mainstream:** In 2024, more than 60% of farmers surveyed intended to boost direct-to-consumer sales, indicating a significant shift in the industry away from reliance on middlemen. In North America, Europe, and some areas of Asia, farm-to-institution programs, subscription boxes, and community-supported agriculture (CSA) are increasingly common routes.
- **India's e-NAM platform and FPO push:** In an effort to lessen reliance on traditional commission agents without destroying the market infrastructure they uphold, India has encouraged the use of the National Agriculture Market (e-NAM) platform to guarantee transparency and lessen price distortions, while Farmer Producer Organizations (FPOs) are being encouraged to assist farmers in pooling resources, strengthening their bargaining power, and improving access to inputs, credit, and markets.
- **RBI highlights margin capture during inflation:** Long-standing worries about competitive failure in agricultural value chains were reinforced in 2024 when the Reserve Bank of India published four working papers demonstrating that dealers and retailers took a disproportionate percentage of consumer spending at inflation peaks. The results reaffirmed recommendations for investments in competitive market platforms, rural highways, and cold storage.
- **Blockchain and traceability are reshaping transparency:** East Africa and Southeast Asia are testing blockchain-based supply chain verification for fresh vegetables, coffee, and cocoa. By enabling buyers and consumers to confirm the provenance and handling of products, these systems may enable farmers to demand higher prices and lessen the informational advantage of conventional middlemen.
- **Modern B2B intermediaries are replacing traditional ones:** In cities like Bengaluru, India, data-driven business-to-business e-commerce companies are starting to appear. They use technology to optimize food supply chains, functioning as a new type of digital middleman that claims to be more transparent and efficient than traditional commission agents. However, it is still unclear whether the platforms themselves reap the benefits or if farmers do.
- **OECD-FAO outlook flags smallholder vulnerability:** According to the OECD-FAO Agricultural Outlook 2025–2034, there is increasing pressure on individual farmers to increase their productivity, particularly smallholders who are frequently the most susceptible to market shocks and have limited capacity to embrace novel technologies. This demonstrates that technology alone has not yet been able to address the structural drawbacks that force smallholders to rely on middlemen.

### Reforms and alternatives

Policymakers and development organizations have attempted a number of methods to improve market results for farmers after realizing these structural shortcomings. Farmer cooperatives lessen reliance on individual traders by enabling smallholders to pool their resources and engage in collective bargaining. Price discovery environments are made transparent and competitive by commodity exchanges. Value chains are being shortened and

farmers are being directly connected to buyers through e-commerce and digital platforms, which are becoming more prevalent in China, Kenya, and India. Wholesale disintermediation isn't always practical or desired, though. For cooperatives to operate effectively, they need strong social capital and governance capabilities. Smartphone penetration and connectivity are necessary for digital platforms, yet they might not be available in rural locations. The most practical short-to medium-term solution in many situations is still a controlled and reformed intermediary industry.

## Conclusion

In agricultural markets, middlemen play an indispensable, if flawed, role. They lower transaction costs, take on risk, offer financing, and link far-off manufacturers with far-off consumers. However, structural characteristics of rural economies, such as restricted competition, information asymmetry, and geographic isolation, might enable intermediaries to charge farmers exorbitant rents. The policy problem is to establish conditions that allow intermediaries to operate more transparently and competitively rather than to completely eradicate them. This entails making investments in rural infrastructure, supporting farmer associations, sharing market data, and carefully controlling crowded markets. There is genuine hope for a more equitable balance between fields and markets as the agricultural intermediation landscape changes due to the growth of digital platforms, mobile connectivity, and e-commerce.

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