

# Are marketing intermediaries exploiting mountain farmers in Nepal? A study based on market price, marketing margin and income distribution analyses

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## Abstract

Against the backdrop of viewing marketing intermediaries in developing countries as parasites, this study examined the validity of such a view, especially in the context of mandarin (a species of orange) marketing in a mountain district of Nepal. Necessary information was collected from all major stakeholders such as farmers, collectors and commission agents, and the relative position of farmers in terms of their gains was analyzed by employing three criteria: price of mandarin, marketing margin and income distribution. Income distribution among marketing functionaries “with” and “without” transaction cost has been analyzed. Similarly, marketing margin and farmers’ share of gross income are also analyzed ‘with’ and ‘without’ the cost of malicious practices by marketing intermediaries. Findings of the study revealed that farmers in the study area are receiving a fair share of the benefit accruing from the marketing of mandarin. However, taking advantage of their weak bargaining power and poor economic condition, marketing intermediaries are harassing and cheating them in different ways. Policy recommendations are made to institutionalize and strengthen the group-marketing system to address such inherent problems.

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## 1. Introduction

Agriculture in developing countries has been confronted with the chronic problem of low returns (Ellis, 1996) due partly to an over-emphasis on the production of cereal crops, with low income elasticity of demand, irrespective of land suitability. Cereals are sources of food, but dependence on such crops only deprives small farmers, who comprise the major proportion of farming populations in developing countries, from cash earnings required for the improvement of their economic condition. Moreover, cultivation of cereals that requires intensive tillage practices has been a major cause of land degradation in the Himalayan Mountains (ICIMOD, 1998; UNEP, 1999; Thapa, 2001).

Integration of suitable and economically attractive cash crops such as fruits can help to improve the economic status of mountain farmers and also control land degradation (Dixon et al., 1989; Demaine, 1994; SAREP, 1997). Fruits usually fetch higher prices (FAOSTAT, 2003) because of an ever-increasing demand arising from the growing urbanization of societies (Gunawan, 1997; Lantican, 1997). Realizing such economic and environmental significance, many developing countries are promoting fruit production. Nepal, where mandarin (*Citrus reticulata*), a species of orange, promotion has been a national strategy for reducing agrarian poverty in the middle mountains, is not an exception. Accordingly, provisions of extension services, credit, and necessary inputs have been made to enable farmers to produce fruit (Chambers, 1989). Despite such efforts, developing countries have very small percent ages of their agricultural land under fruit. Rather they have

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been importing fruit and fruit-products to meet domestic demands (FAOSTAT, 2003). This is due to a lack of concern about fruit marketing on the part of policymakers (Ellis, 1996; Pennings and Leuthold, 2000; Key et al., 2000). Any enterprising farmer first considers possible profit from the new crops (Blaikie, 1988; Thapa, 2001) that largely depends on marketing operations (Isik, 2002). In the absence of an efficient marketing system, farmers are deprived from satisfactory income, eventually discouraging them from venturing into cultivation of commercial crops such as fruits (Ervin and Ervin, 1982; Blaikie, 1985). Empirical studies pursued in Nepal found mountain farmers losing interest in mandarin production due to low income attributed to an inefficient marketing system (Shrestha and Shrestha, 2000; MDD, 2001).

Agricultural marketing comprises buying, selling, storage, processing, standardization, certification, and distribution of farm products. In the process of transfer from farmers to consumers, agro-products pass through a channel involving a sequence of changes in their forms and prices, and several intermediaries play an important role in getting products transferred from farm-gates to the consumers (Ellis, 1996). A farmers' role would normally be over after the transfer of products to intermediaries, who bear the responsibilities of transporting, storing, processing and selling products. Intermediaries who purchase products at the farm-gate, commonly referred to as middlemen, provide important marketing services particularly to small farmers in developing countries who would incur high transaction costs if they had to transport small amounts of their produce to sell it in the market centers, thereby constraining the adoption of suitable and economically attractive land use systems (Bingen et al., 2003). Particularly in the case of highly perishable products such as vegetables and fruits, there is a high risk of these products decaying while being transported to and stored at different market centers. Thus, intermediaries safeguard small farmers against possible loss and help them to secure a higher profit margin (Ellis et al., 1997; Sidhu, 1997; Fuentes, 1998; Lyon, 2000; Gandhi et al., 2001).

While overlooking the positive role of intermediaries in providing marketing services particularly to small farmers, agricultural policymakers in many developing countries have had a tendency to perceive them as parasites who take away a large share of the benefit accrued from the sale of crops by taking advantage of small farmers' unawareness of market prices (Ellis, 1996). Such a perception is clearly reflected in policy papers and academic publications (Mohar, 1997; Lee, 1997; Gunawan, 1997; Khushk, 2001). According to Thapa et al. (1995) and Shrestha and Shrestha (2000), traders and middlemen are cheating farmers by taking advantage of their lack of knowledge of market prices, poverty and weak bargaining power arising from illiteracy and low social status, on the one side, and monopsony or oligopsony types of marketing system, on the other. These combined with seasonal shortfalls of cash, lack of storage facilities in villages and little awareness of

market prices have further weakened farmers' bargaining power (Lantican, 1997; Banskota and Sharma, 1999; Shrestha and Shrestha, 2000; Khushk, 2001).

The above-mentioned perceptions have dominated the policymaking arena in the past, resulting in direct government intervention in agricultural marketing, with focus on export and strategic products (Ellis, 1996). In this pursuit, monopoly and semi-monopoly marketing parastatals were created for handling marketing of agricultural products. Evaluation studies on the performance of government handled marketing systems revealed that they have become instrumental in the exploitation of farmers by offering low prices for farm products and delayed payments. Moreover, they were functioning very inefficiently, and could not provide any services to the overwhelming majority of the farmers who possess small landholdings and produce crops beyond the mandate of marketing parastatals (Thapa et al., 1995; Koirala et al., 1995; Ellis et al., 1997; Sidhu, 1997; Guoquiang, 1997; Lantican, 1997; Mohtar, 1997; Dewbre et al., 2001; Gandhi et al., 2001; Dorward et al., 2004). Instead of helping to address farmers' problems arising from their weak bargaining capability, state policies of handling marketing of selected crops by government or semi-government agencies aggravated farmers' problems (Lantican, 1997; Banskota and Sharma, 1999; Khushk, 2001).

In view of the bitter experience of state intervention in agricultural marketing, there is growing emphasis in developing countries on the promotion of a free marketing system that satisfies the interests of farmers, traders and consumers. An ideal situation, where there are opportunities for earning income for both farmers and traders, serves as a driving force for a self-regulated free marketing system. Providing marketing services in an efficient way to millions of farmers is impossible for government agencies. However, the agencies can play a catalyst role as a facilitator and regulator of the free marketing system. Realizing this, the governments in developing countries are gradually withdrawing from direct involvement in agricultural marketing and dismantling barriers to the free marketing system (Reusse, 1987; Guoquiang, 1997; WTO, 2003; Dorward et al., 2004). However, marketing intermediaries such as middlemen and traders are still viewed as exploiters of uneducated farmers by both national and international policymakers as reflected in publications such as AEC/WI/MOA (1996); FAO (1998), MOA (1998), Pradhan (1998), Banskota and Sharma (1999), and Chapagain and Phuyal (2003). If the marketing intermediaries are really getting a large share of the benefit generated by agricultural products by taking advantage of farmers' weak bargaining power, lack of knowledge of the market price of products and high transaction cost per unit of marketed product, arranging marketing through farmers' groups can help considerably to overcome this problem, though this is not an easy task. By organizing themselves in groups, particularly small farmers' can enhance their bargaining power and establish a market information system, thereby reduc-

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