

Regoverning Markets

Small-scale producers in modern agrifood markets

Innovative Policy

China

An example of an agricultural brokers' association: The Tongzhou Agricultural Brokers' Association

Z Shudon

Nanjing Agricultural University

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Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets.

Innovative Policy series

Innovative Policy is a series of short studies from the Regoverning Markets programme addressing a specific policy innovation in the public or private sector that improves the conditions for small-scale producers to access dynamic markets at national, regional and global level.

The case studies were coordinated by:

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Other publication series from the Regoverning Markets programme

Innovative Practice

Innovative Practice is a series of country case studies providing examples of specific innovation in connecting small-scale producers with dynamic markets at local or regional level. Based on significant fieldwork activities, the studies focus on four drivers of innovation: public policy principles, private business models, collective action strategies by small-scale farmers, and intervention strategies and methods of development agencies. The studies highlight policy lessons and working methods to guide public and private actors.

Agrifood Sector Studies

These studies look at specific agrifood sectors within a country or region. Research studies have been carried out in China, India, Indonesia, Mexico, South Africa, Turkey, Poland and Zambia covering the horticulture, dairy and meat sectors. Part A of the studies describe the observed market restructuring along the chains. Part B explores the determinants of small-scale farmer inclusion in emerging modern markets. Using quantitative survey techniques, they explore the impacts on marketing choices of farmers, and implications for rural development.

Country Studies

These provide a summary of market changes taking place at national level within key high-value agrifood commodity chains.

Further information and publications from the Regoverning Markets programme are available at: www.regoverningmarkets.org.

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1. The situation before the new policy was introduced

Farmers in Tongzhou produce a wide range of typical cash crops. Although the quality of their produce is high, they are unable to obtain a good price for it, because local markets are small-scale, and farmers lack any marketing channels to reach markets outside their local areas. This case study shows that an agricultural brokers' association can act as a bridge between small farmers and outside markets.

Many traditional cash crops are grown in Tongzhou, such as vegetables, melons and beans. The produce is of high quality, but farmers are unable to get good prices for it. There are a number of reasons for this. First, many different varieties of cash crops are grown, and the quality is variable. Second, farmers grow each crop on a small scale. Third, it is difficult for farmers to sell their products other than in local markets.

Some farmers buy produce from other farmers and sell it at local markets in their spare time, making a small profit from the difference between the purchase and the selling price. After several years' experience of this activity they begin to explore outside marketing channels, and gradually become agricultural brokers.

There is a huge number of these agricultural brokers. They operate as individuals, which means they have little capacity to cope with risk. There are two types of rural broker. On the one hand there are the kind who are in close contact with the farmers, whom they often visit during harvest time, when it suits the farmers to sell their produce at the farm gate. On the other hand, there are brokers who operate in contravention of trading regulations, and who pay low prices to farmers. For several decades agricultural brokers and traders were denigrated, and the Chinese government tried to ban them, but without success. The government realised the vital role that brokers play in value chains and in contributing to farmers' incomes and rural development, and therefore it adopted a new strategy designed to organise them and regulate their activities after the economic reform.

The Department for Industry and Commerce is responsible for marketing regulations. The aim of the new policy is to increase the effectiveness of marketing regulations by encouraging rural brokers to organise themselves in associations.

2. The establishment of the agricultural brokers' association

Tongzhou Agricultural Brokers' Association was formed in 2001 with the support of the Department for Industry and Commerce. This body introduced special measures relating to the association, such as subsidies and tax relief, and provided it with initial operating finance, an office, technical training and printed materials. The Department also gives annual awards for the best brokers.

The local government issued the new regulations on brokers, under which the Department for Industry and Commerce keeps records which show the credit record of every broker, and which are open to public scrutiny. The Department will investigate any suspected breach of the regulations action or reported anxieties about a broker's credit record, and will help brokers deal with any problems they may encounter.

The agricultural brokers' association provides its members with marketing information, technical training, and consultancy services, in order to improve brokers' performance and operational capacity.

The agricultural brokers' association provides a channel to market outlets in Shanghai city, Suzhou city, Wuxi city, and even Zhejiang province. This channel can be described as: Farmers → agricultural brokers → wholesale markets in cities.

The agricultural brokers are in close contact with farmers, and they know what kind of cash crops they produce. During harvest time they introduce buyers to purchase produce at the farm gate, the farmer signs a contract with the buyer on the basis of an individually agreed price (i.e., not by collective negotiation), and then pays a brokerage fee to the broker.

3. Assessment of the costs and benefits of the agricultural brokers' association

Four Department for Industry and Commerce officers are responsible for running the brokers' association. Their salaries are covered by the Department for Industry and Commerce. The association's income comes from the following: membership fees, local government financial support, operating income, donations, and interest on investments.

Any broker can apply to become a member of the association, on payment of a membership subscription of RMB300–500. He will then receive training from the association, and be granted a licence to operate as a broker, after passing an examination. The association does not charge its members for their transactions.

The introduction of the new policy led to the creation of the agricultural brokers' association on 26 October, 2001. The association developed rapidly, its membership grew to 11,670, and the value of its transactions reached RMB2,250 million in 2005. The agricultural brokers' association organised eight training courses for its members during this period. Its members established 30 specialised wholesale markets, 106 cash crop production bases, and extended their marketing network into 20 countries.

The agricultural brokers' association created a favourable environment for small-scale producers to improve their position in the market. The value of agricultural output in Tongzhou increased from RMB12,164 million in 1999 to RMB19,152 million in 2004, with an average annual growth rate of 9.5 per cent. Farmers' average income level reached RMB5,432 in 2004, an increase of RMB1,543 compared with 1999.

4. Implications of the new policy

- There are agricultural brokers throughout the countryside, and they can have either a positive or a negative effect. By targeting them with a specific policy, the government can stimulate their positive effects and mitigate their negative effects. If they are organised and regulated, they can play a more important role in promoting the production and marketing of typical local cash crops.
- The agricultural brokers' association can build a bridge between small-scale producers and urban wholesale markets, and help to solve farmers' marketing problems.
- The conditions necessary for introducing this new policy are:
 - a) There must be a large number of typical cash crops, of high quality; these are cash crops for which there is a potential market in other regions, but the lack of a marketing channel prevents their development.
 - b) There must be a certain number of agricultural brokers in the region, who are familiar with the products concerned, and with their general quality, and who have experience of exploiting marketing channels.

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