

SDIP ADVOCACY BRIEF No.2

Sustainable Development Investment Portfolio (SDIP)

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Enhancing Farm Incomes and Economic Growth in BBIN Countries through **Better Linkages and Stronger Value Chains**

Executive Statement

Despite remarkable achievements in cereal production, food security is still a major challenge to South Asia owing to its vast population and shrinking land holdings. The geographical limitations of countries like Nepal, Bhutan and Bangladesh have made them dependent on imports of agricultural inputs and outputs. The countries of Bangladesh, Bhutan India and Nepal (BBIN) are potential producers of cereals, fruits, vegetables and spices and there is an increasing demand for these high value/value added products within the region. However, the existing national policy and operational framework of member countries are not supporting regional value chains, ultimately hindering economic growth. Multiple players between producers and consumers and poor connectivity and infrastructure are further hurdles in developing stronger agricultural value chains in the region to realise better price for farmers and end consumers. Transforming conventional agriculture to agribusiness models would shorten the supply chain fostering forward and backward linkages and would need a favourable policy regime.

Few recommendations to realise this are as following:

- a) Strengthening linkages between service providers, market players and farmers through collaborative structures
- b) Developing market infrastructure through better regulatory framework
- c) Enhanced operations at border trade points for increased formal cross-border agricultural input-output trade and improvement in local economy
- d) Harmonisation of laws and regulations and reducing non-tariff barriers

Domain of Change

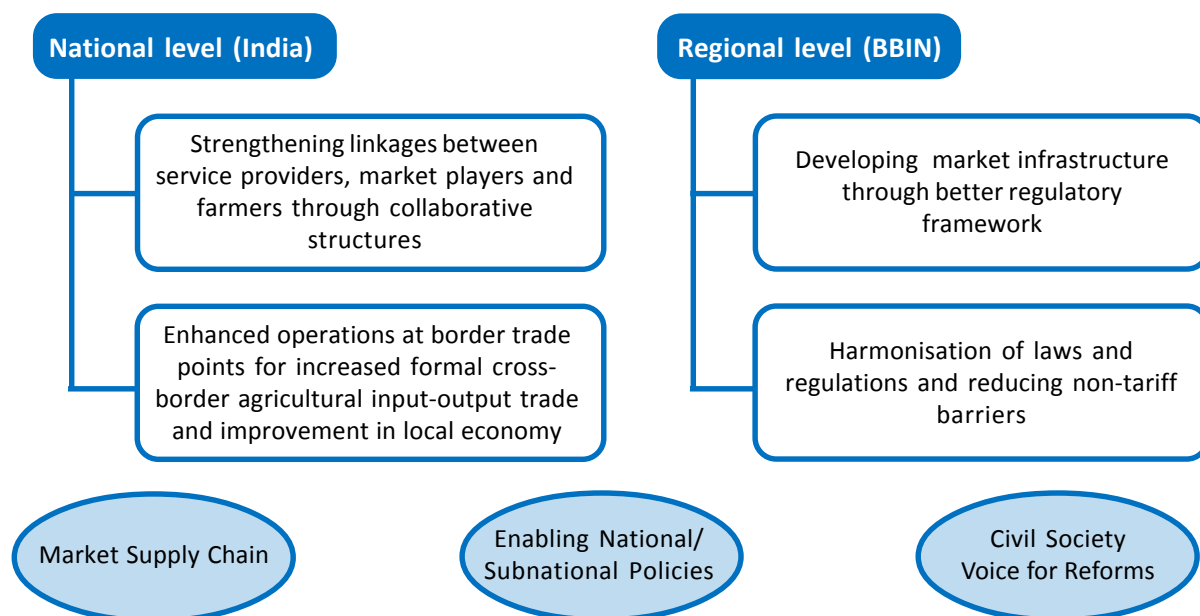
- a) Market Supply Chain: Inputs and Services
- b) Collaborative structures between farmer organisations and service providers; agro business, researchers and relevant public agencies
- c) Civil society voice for reforms

CUTS advocacy strategies for strengthening regional value chains, based predominantly on local level input and evidence, will be targeted at two levels – regional regulatory regime and domestic market regime in India influencing the three domains of change.

Context

Agriculture in the South Asian region is dominated by smallholder farms, which have been shrinking and fragmenting over the years. This has also led to decline in agriculture growth and its contribution in gross domestic product (GDP).¹ Non-viability of small farms, inadequacies in inputs, extension services, credit, poor institutional capacity of farmers' market systems, and infrastructure has been the reasons behind low agricultural productivity. Moreover, there is limited involvement of private sector in agriculture mainly due to poor infrastructure and high cost of raw materials. This has led to skewed bargaining power between smallholder farmers, traders and agri-business chains.

Figure 1: Domains of Change & relevant strategies



Policy Recommendations

a) Strengthening linkages between service providers, market players, private sector and farmers through collaborative structures

In India, there is a policy provision where farmers can organise and register themselves as Farmer Producer Companies/Organisations (FPOs). The Small Farmers’ Agribusiness Consortium (SFAC) has been constituted with the objective of building efficient linkages between the producers and the consumers for expanding employment opportunities and increasing the rural income through better marketing of agricultural products. Under this, the FPOs are linked to technology as well as to the markets in association with private, corporate or cooperative sector and if necessary, by providing backward and forward linkages. So far, 570 FPOs have been registered in India.

Field Insights

As part of the perception study, CUTS interviewed the FPOs in the states of Bihar, Uttar Pradesh, West Bengal and Assam. The interviews revealed that most of the registered FPOs are still lagging behind in terms of institutional capacity, access to credit and services. The resource institutions that have facilitated the formation of FPOs backed out after the creation of FPOs as they are being supported by the state government only for a period of two years. The FPO representatives and the resource institution opined that they need hand holding support for at least five years. Further, women representation is not mandatory in the Board of Directors of FPOs. But to avail the benefit of Equity Grant Fund,² having at least one women board member is mandatory. Many of the FPOs have no female members in their Board of Directors. Only a few FPOs with entrepreneur skills have developed into business models. Most of the FPOs are not being benefitted from the government schemes.³

With the support of these evidences, CUTS international will be focussing on the following advocacy areas:

- Sensitise agricultural departments and credit institutions to include and prioritise FPOs in their ongoing schemes.
- Sensitise SFAC to extending the period of support to FPOs through resource institutions for at least five years for capacity building.
- Making the inclusion of female members mandatory in the Board of Directors of FPOs and
- Create a network and platform for FPOs in each state.

Strategy	<ul style="list-style-type: none"> • Stakeholder consultations in Bihar, Assam and West Bengal, media coverage to bring all the change agents together • Bilateral meetings with SFAC officials at Delhi to share the outcome of consultations • Transboundary multi-stakeholder workshop in Guwahati (participation from Bhutan and Bangladesh) • Transboundary workshop to explore market linkages for the FPOs in Bihar and Nepal • Zonal workshop to bring together the FPOs in Eastern India to develop linkages • Wider dissemination of successful model of collaborative structures (Local Service Providers by RGVN*)
Change Agents	<ul style="list-style-type: none"> • The FPOs and Resource institutions (CUTS partner IGS is the resource Institution for FPO in Bihar and West Bengal) , SFAC officials , local service providers (in Assam), Agricultural department officials, input providers (fertilisers and pesticides), agricultural entrepreneurs, National Bank for Agriculture and Rural Development or NABARD (for credit services)
Tangible outcome	<ul style="list-style-type: none"> • It is expected that the stakeholder consultations will help to identify the constraints and gaps in existing policy framework of FPOs and bring it on the floor for discussion. The outcomes of these consultations will be shared with SFAC department New Delhi for recommending necessary policy amendments for better women representation • It also expected that the success story of collaborative structures of RGVN would generate more confidence in farmers and service providers to develop linkages

*RGVN has identified progressive farmers in six districts of Assam and trained them as local service providers for specific sectors like livestock, poultry, vegetables etc. They were given intensive training through extension departments and were also federated into a local service providers association at district level. The association has linkages with input dealers and also undertake market analysis and sell the produce so as to gain maximum benefits.

b) Promote development of market infrastructure through better regulatory framework and investment in Eastern Gangetic Plain

When it comes to India, the agricultural markets are regulated by State Governments through the APMC Act.⁴ The monopoly of government regulated wholesale markets has prevented development of a competitive marketing system in the country, providing no help to farmers in direct marketing, organised retailing, a smooth raw material supply to agro-processing industries or adoption of innovative marketing system and technologies. Hence, the Union Government came up with a Model APMC Act (2003) which had provisions for direct marketing, contract farming and private market yards. However, the regulatory regime is different in different states of the country and the state also imposes taxes on inter-state transport of agricultural produce.⁵ Therefore, there is a need to have a favourable regulatory regime in the states of Ganges basin to help enhance for private participation and market infrastructure.

Strategy	<ul style="list-style-type: none"> • Public-private dialogue with farmers, CSOs, academicians, farmer organisations, traders, women groups, agriculture exporters, APMC committees, media, marketing board, etc. • Meetings with agriculture department, FPOs marketing board, media, academia and ministry officials • Op-eds in leading newspapers
Change Agents	<ul style="list-style-type: none"> • Farmer organisations/associations, officials of marketing board, politicians, policy makers, agricultural departments, ministry of agriculture , agricultural entrepreneurs, traders
Tangible outcome	<ul style="list-style-type: none"> • It is expected that the consultations with different stakeholders would throw up some suggestive action points for the government, which will be shared with department/ ministry officials and policy makers to make necessary reforms • Creating a discourse towards enabling more public-private dialogues on market infrastructure

In light of the Bangladesh, Bhutan, Nepal India (BBIN) initiative for regional integration and connectivity, the Indian states of Uttar Pradesh, Bihar and West Bengal have a crucial role in connecting land locked nations of Nepal and Bhutan to Bangladesh and further to international markets and vice-versa. These states, which are major producers of fruits and vegetables, however lack the necessary facilities for storage and value addition. To cite an example, during the past decade Bihar witnessed many reforms in agricultural sector. In 2006, the state repealed the APMC Act to liberalise agricultural market and attract private participation. In 2013, Primary Agricultural Cooperative Societies (PACS) were given the sole authority for procurement of rice and wheat in the state.

However, these reforms have not helped in promoting direct purchase by private players at farm gates or setting up of private market yards. Since the state government is not collecting taxes through market committees (*mandi parishads*), there is little investment by the public sector in building infrastructure and basic facilities. Poor quality of produce, cumbersome documentation process involved in procurement and the low price paid by the state agency to millers are the reasons for which private parties are hesitant in procurement.⁶ Thus, the advocacy efforts of CUTS International would focus specifically on Bihar through its partner IGS-BASIX to facilitate public-private dialogue so as to create an enabling policy regime for infrastructure development and investment that would facilitate better and integrated cross-border agricultural value chains in the BBIN sub-region.

c) Enhanced operations at border trade points for increased formal cross-border agricultural input-output trade and improvement in local economy

Opening of Border *Haats*⁷ along international borders by India and Bangladesh has shown a lot of promise towards economic development of border communities, formalising informal trade, building trust and higher trade openness. The list of tradable commodities through border *Haat* is limited to locally produced vegetables, fruits, food items, spices, forest produce, products of cottage industries, agricultural household implements and garments etc. As per the report by India’s Commerce Ministry, an estimated US\$20mn worth trade can take place annually between India and Bangladesh through the Border *Haats*.⁸ Considering the volume of informal trade and increasing demand from both sides, more *Haats* as well as commodities can be included through advocacy to enhance trade and strengthening regional value chain.

Four border *Haats* including Kalaichar (Meghalaya-Bangladesh border); Balat (Meghalaya-Bangladesh border); Kamlasagar (Tripura-Bangladesh border) and Srinagar (Tripura-Bangladesh border) are already operational. The *Haats* are doing really well in terms of generating local economic benefits as well as access to new and better products. Collective business at the border *Haats* in Tripura has crossed ?2

Strategy

- One-to-one meetings with local government representative, Border Haat Management Committee, Sub-District Magistrate of the district having jurisdiction over the concerned haat, vendors, traders, women vendors, media etc.
- Meetings with Ministry of Commerce, Ministry of Home Affairs, Ministry of External Affairs
- Sub-regional dialogue in Guwahati
- Regional workshop on food, water, energy in Delhi
- Op-eds in leading newspapers

Change Agents

- Local government representative, Border Haat Management Committee, Sub District Magistrate of the district having jurisdiction over the concerned haat, vendors, traders, women vendors, media, local politicians, transporters, officials in the Ministry of Commerce, Ministry of Home Affairs, Ministry of External Affairs etc (in India and Bangladesh)

Tangible outcome

- It is expected that the advocacy efforts will lead to better infrastructures and facilities, more tradable items, and more border Haats
- The development of these will boost the local economy and livelihoods. It will also foster better people-to-people connect leading to mutual trust building

crore so far for the current year. Border *Haats* stand as live examples of how trans-boundary cooperation could lead to immediate economic gains, higher access and better people-to-people connect. Currently, there is great demand to open more *Haats* and include more items in the list of tradable items and also increase the number of *Haat* days.

With the support of these evidences, CUTS international will be focussing on the following advocacy areas:

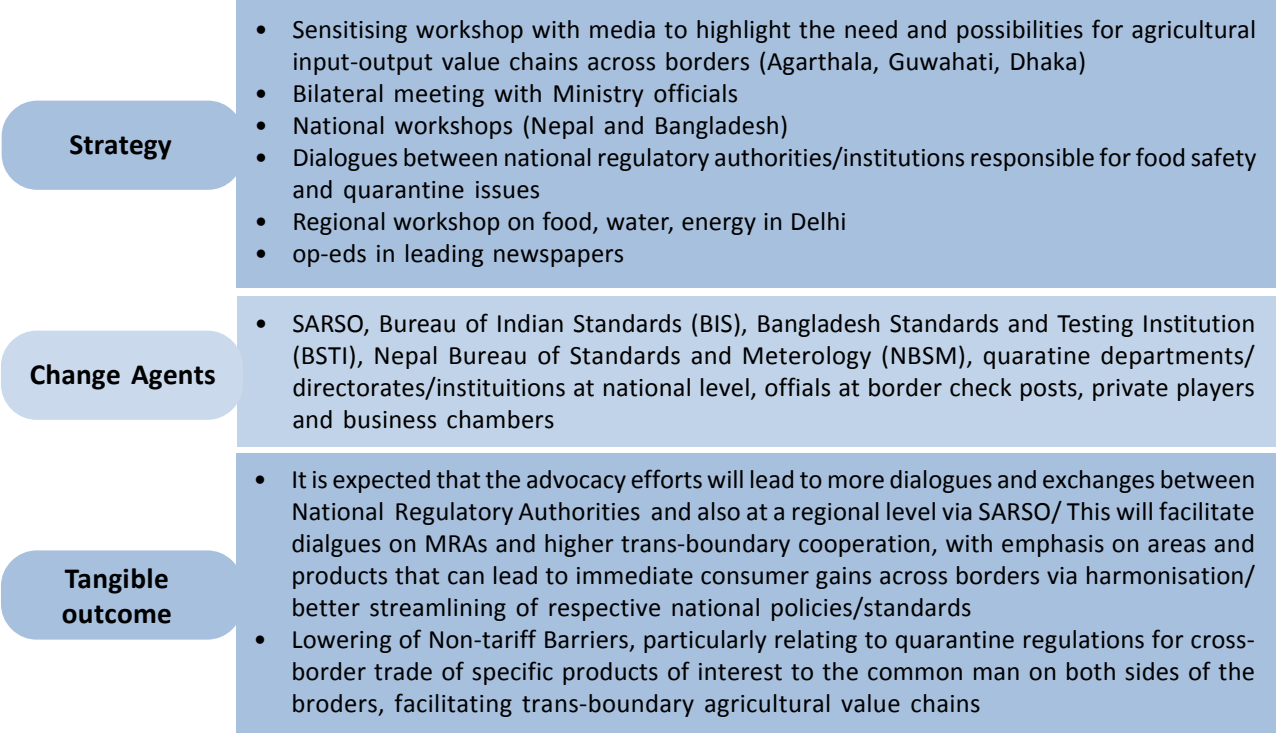
- to open more border *Haats* along India-Bangladesh border and to initiate dialogues on opening *Haats* at other border points
- To include more items in the list of tradable goods in *Haats* and make the list flexible to local needs
- To ensure better facilities and infrastructure at existing *Haats*
- To increase the number of vendors and no. of market days⁹

d) Harmonisation of laws and regulations and reducing non- tariff barriers

BBIN countries being the hotspot of fruits, vegetables, spices, fisheries and poultry production there is huge potential for processing and value addition. There is great potential for market-based economic development that can create benefits through regional agricultural value chains but existing political, procedural and regulatory barriers (like high tariff rates, non- tariff barriers and non- acceptance of mutual standards) hinder this. Also, there are issues related to quarantine restrictions in the case of plant and animal products, which are in great demand across the border. Thus strengthening agricultural value chains through trade facilitation can be among the most effective ways to address the socio-economic problems of farmers.

Non-harmonised food safety and quarantine rules across countries, low trans-boundary cooperation between national authorities in the respective countries and consequent non-acceptance of quarantine and SPS certification from partner countries is a major issue as highlighted by traders. For example, India and Bangladesh does not permit trade of high yielding variety of seeds and does not issues/accept certificate of quality despite similar quality testing procedures and standards, such as germination and moisture control etc. This creates an environment of disappointment in exports/imports community for cross-border trade, leads to higher prices for end consumers and creates incentives for informal trade.

Source: RISTE Project by CUTS International



With the support of these evidences, CUTS international will be focussing on the following advocacy areas:

- Push for mutual recognition of standards via Mutual Recognition Arrangements (MRA), particularly by utilising the platform created by South Asia Regional Standard Organisation (SARSO)
- Reducing non- tariff barriers through evidence-based multi-level advocacy dialogues
- Building capacity of stakeholders, both government and non-government, to better understand, interpret and implement standards/quarantine related regulations

Endnotes

- 1 The contribution of the agricultural and allied sector (including agriculture, livestock, forestry and fishery subsectors) to GDP declined from 32.2 percent in 1990-91 to about 13.9 percent in 2013-14 in India, while at the same time around 70 percent of rural households depend on this sector for their principal means of livelihood. The annual average growth rate of the production of wheat, rice and food grains between 1990 and 2010 came down to 3 percent, 1 percent and 2 percent respectively; while it was 5 percent, 4 percent and 3 percent during 1970s and 1980s (see Ghosh, Madhusudan, Debashis Sarkar and Bidhan Chandra Roy, 2015, Diversification of Agriculture in Eastern India, Springer: London).
- 2 The Equity Grant Fund “enables eligible FPCs to receive a grant equivalent in amount to the equity contribution of their shareholder members in the FPC, thus enhancing the overall capital base of the FPC”. Also, the eligibility criteria for the Equity Grant Fund states that there should be “adequate representation from member farmers and minimum one woman member”.
- 3 ‘Policy and Process Guidelines for Farmer Producer Organisations’ states that the “formation and development of FPOs will be actively encouraged and supported by the Central and State Governments and their agencies, using financial resources from various centrally sponsored and State-funded schemes in the agriculture sector agencies”.
- 4 Agricultural Produce Market Committee (APMC) is a statutory market committee constituted by a State Government in respect of trade in certain notified agricultural or horticultural or livestock products, under the Agricultural Produce Market Committee Act issued by that state government. Notified products are meant to be brought to the market committee and auctioned in presence of the farmer.
- 5 During the diagnostic study, the issue of market reforms was highlighted in the state of Uttar Pradesh where the state has not adopted the Model Act. Farmers do not fetch fair price for their produce and the middlemen takes the whole benefit of the current regulatory system. The state has potential for value addition horticultural crops like mango, *jamun* (Java Plum), and *karonda* but no industry is there for processing. In Bihar the act has been repealed but still has not attracted private investment and practically there is no development in market infrastructure. The state of West Bengal has adopted the Model Act but has omitted the clause of contract farming.
- 6 http://www.cuts-ccier.org/crew/pdf/Impact_of_Current_Market_Dynamics_on_Paddy_and_Wheat_Farmers_in_Muzaffarpur-Bihar.pdf
- 7 Local markets called border *Haats* have been opened to facilitate trade between small scale industries and farmers along India- Bangladesh border
- 8 www.cuts-citee.org/IBTA-II/pdf/India-Bangladesh_Trade_Potentiality- An_Assessment_of_Trade_Facilitation_Issues.pdf
- 9 India-Bangladesh Trade Potentiality: An Assessment of Trade Facilitation Issues, *CUTS International*, February 2016, available at: http://www.cuts-citee.org/IBTA-II/pdf/India-Bangladesh_Trade_Potentiality- An_Assessment_of_Trade_Facilitation_Issues.pdf



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