

Reducing Informal Trade in Agricultural Inputs

Case of India-Bangladesh Border

Volume of cross-border formal trade between India and Bangladesh has been gradually increasing over the period of time; however, it has been reported and observed through primary research using various techniques that the volume of cross-border informal trade between India and Bangladesh is more than twice the volume of formal trade.

As India and Bangladesh once were part of the same country, often people residing in the border areas of both the countries own piece of land on the other side of the border, which is still used for the farming purpose. Movement across the border for few hours is allowed to these farmers, which leads to informal trade in agricultural input products. Socio-ethnic linkages between people also results in large amount of cross-border informal trade.

Therefore, this Policy Brief is an attempt to present a set of recommendations based on primary and secondary research, to address and arrest informal cross-border trade in agricultural input products between India and Bangladesh.

India and Bangladesh share a common history coupled with various geographical and cultural similarities. Unfortunately, despite of these similarities, trade and economic integration between the two countries has been limited. Value of exports from India to Bangladesh constitutes merely 2.47 per cent of total exports from India to the world. Similarly, value of imports from Bangladesh to India constitutes 0.18 per cent of India's total imports from the world. Additionally, large volume of informal trade has been evident between India and Bangladesh. It is estimated that the volume

of informal trade is twice the volume of formal trade between India and Bangladesh.

Impact of this informal trade¹ is manifold. While on one hand it leads to loss in government revenue, but it also generates livelihood to the rural population, especially for the women, residing in the border areas. Thus, while it is important to formalise informal trade, it is equally significant to consider the role that informal trade plays in sustainable livelihood of people living in

¹ Informal trade fill in the gaps which are created by the legal bindings of formal trade

rural and border areas - farmers, local traders, dealers and others who either practice cultivation, trade or are involved in the supply chain of the informally traded agricultural inputs. Farmers in the border areas indulge in informal trade in seeds and fertilisers since it provides them timely access to better quality seeds and fertilisers, which in turn is an essential part of their cropping pattern, income, livelihood and food security. It is necessary to mention that local households feel that they gain by participating in informal trade, whether it is through procuring goods at cheaper price or by better and improved output of their cultivation.

Understanding the importance of arresting cross-border informal trade between India and Bangladesh and considering its huge impact on the livelihood of several, this policy brief is an attempt to present a set of recommendations towards addressing this issue and arresting cross-border informal trade in agricultural input commodities between India and Bangladesh. This brief only provide recommendations to gradually arrest informal trade as any forceful measure to curb informal trade completely in agricultural inputs will only aggravate socio-economic and political issues at the grassroots.

Key Policy Messages

- Reduction in various tariff and non-tariff barriers is required to facilitate trade in agricultural inputs through formal channels. Particularly, there is a need to harmonise standards between India and Bangladesh and simplify procedure of certification, and have more quarantine facilities;
- Developing all-inclusive at the border infrastructure is essential to curb informal transactions between India and Bangladesh
- Opening more border haats along the India-Bangladesh border will benefit small producers along the border districts. Border haats model has proved to reduce the intensity of informal trade between India and Bangladesh in particular locations where border haats are there in place, and have demonstrated the much needed economic and welfare benefits for people living in the border areas of the two countries.
- There is a requirement of strengthening agricultural research, its outreach and related awareness generation at grass-roots level, at bilateral or regional level. Regional bodies in association with the country-level agriculture research bodies should work together and develop agricultural input products that can be procured and satisfy quality requirements of both the countries.
- Adopting policies for job creation and mandatory education schemes

Reduction in Tariffs and Non-Tariff Barriers through Harmonisation of Standards, Simplification of Certification and Procedures

Both India and Bangladesh follow restrictive trade policy for seeds, especially paddy and tomato, in the form of high import duties for trade. Higher import tariffs lead to higher cost of exports for these commodities, and thus, Indian exporters find it unprofitable to export their products. This in turn, affects

the timely availability of the seeds thereby making farmers to resort to informal trade channels. Thus, to address this issue, reduction in tariff for agricultural inputs is essential.

Trade in agricultural inputs such as seeds, fertilisers, pesticides, chemicals, is more prone to sanitary and phyto-sanitary (SPS) issues and technical barriers to trade (TBT). Cross-border trade in these products face more barriers given their health, safety and quality-related concerns. Harmonisation of trade, technical and regulatory standards through mutual recognition agreements (MRAs) and conformity assessment procedures is an option to reduce the potential incidence of NTBs, which could help local people and traders to move to formal channels of cross-border trade.

To this end, there is a need for enhanced role of South Asian Regional Standards Organisation (SARSO) to promote MRAs on conformity assessment procedures amongst the SAARC member states. The overall idea is that, if SARSO develops SAARC standard for a particular product/commodity, they are entitled to publish and circulate these set of standards and conformity assessment procedure across all the SAARC countries with a single window guideline for mechanising its implementation. The authorised standard bodies for each of these countries are then permitted to issue certifications for exporting these products to the other SAARC nations as per the mutual recognition procedure, subject to the fulfilment of these similar set of standards and conformity

assessment procedure, developed by SARSO.

Strengthening Border Infrastructure by establishing Quarantine Facilities

Both India and Bangladesh suffer from infrastructure deficits at border points. For example, while use of paddy and vegetable seeds are predominant in Dinhata II block, there are no quarantine facilities there. Similarly, the Mahadipur border in Malda and the Hili border in South Dinajpur do not have quarantine facilities. This is a major bottleneck for the farmers in those districts when it comes to easy availability of seeds and fertilisers through formal channel. Therefore, it is imperative to establish more quarantine facilities along the India-Bangladesh border for easy accessibility of facilities for the traders. Governments of both India and Bangladesh should identify such locations, in consultation with research organisations and establish quarantine facilities.

Replicating Border Haats

It is being recognised that border *haats* have been instrumental in promoting trade between India and Bangladesh, and they have helped the local people in getting productive employment and positively impacted their socio-economic transformation. Additionally, it has been noticed that they have played an essential role in arresting and reducing informal trade in those areas. Currently, there are only four border *haats* across the lengthy Indo-Bangladesh border, along the borders of Meghalaya and Tripura states of India. Considering this, replication of border *haats*

along new locations will greatly help for better local economic development, people-to-people connectivity, thus, apprehending informal trade. Governments in both the countries can take a long term view of developing these border *haats* as major trading hubs by equipping them with required quarantine facilities to promote trade in agricultural inputs. Other than the north-eastern states, border *haats* should be considered to be replicated along the border of West Bengal and Bangladesh.

Strengthening Agricultural Research, Agricultural Reach-Out and Generate Awareness

As farmers in both the countries are not aware of the bio-safety issues and other probable environmental hazards of using low quality seeds and fertilisers, it is extremely important that national agriculture research institutions in both the countries should aim at developing and distributing indigenous varieties satisfying the environmental requirements. It is imperative that these institutions are dedicated towards facilitating greater agricultural reach-out in their respective countries. This will not only help in disseminating information pertaining to

seeds, fertilizers and good agriculture practices among the farmers, but would also help in generating awareness pertaining to hazards related to cultivation of non-notified seeds and fertilizers.

Adopting Policies for Job Creation and Mandatory Education Schemes

People along the border areas who are engaged in informal trading activities are mostly uneducated and there is lack employment opportunities. Therefore, it is important for the governments of both the countries to take necessary action and mandate basic education to every person in the border areas, and ensure jobs to the people. It is important to move beyond existing prejudices and understand why informal trade is taking place between the two countries. Essentially, governments have to understand the socio-economic needs of their people living in the border areas.

Moreover, it is important to have political consensus between India and Bangladesh, at a larger level to make significant progress in arresting informal trade across borders with speed and at scale