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THE INVISIBLE HANDS IN AGRO SOURCING IN BANGLADESH





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The Food Market in Bangladesh

Total food production in Bangladesh is above 37 million metric tons (Ministry of Agriculture, 2012). The country continually strives to increase food yields to feed a population as large as more than 160 million and evidently, Bangladesh continues to be an agro base economy with almost half the labor force earning a living from agriculture (Labor Force Survey, BBS, 2010). Most of the farmers in the country are smallholders with limited access to inputs and markets and much of the food crops come from them.

According to GAIN, mostly the private sector operates all trade in food and agricultural products except the government's Public Food Distribution System (PFDS). The value of the food retail sector in Bangladesh was close to US\$ 16 billion in 2010, spread across 14,000 small, medium and large markets across the country. Retail and wholesale together accounted for 14.3 percent of GDP in FY11. Retail grocery shops were as many as 1 million employing 12 percent of the workforce (GAIN, 2013). Supermarkets are



relatively new additions to the sector, mostly operating in Dhaka targeting middle to high income segments and holding as low as 2-4 percent of the food retail market.

In a country that is so reliant on agriculture and food for employment and consumption, to what extent are the food value chains yielding shared 'value' to the producers i.e. farmers and sellers i.e. wholesalers/retailers in Dhaka? How can the missing links be bridged using CARE's assemble markets as pilots?



Retail and wholesale
14.3 percent



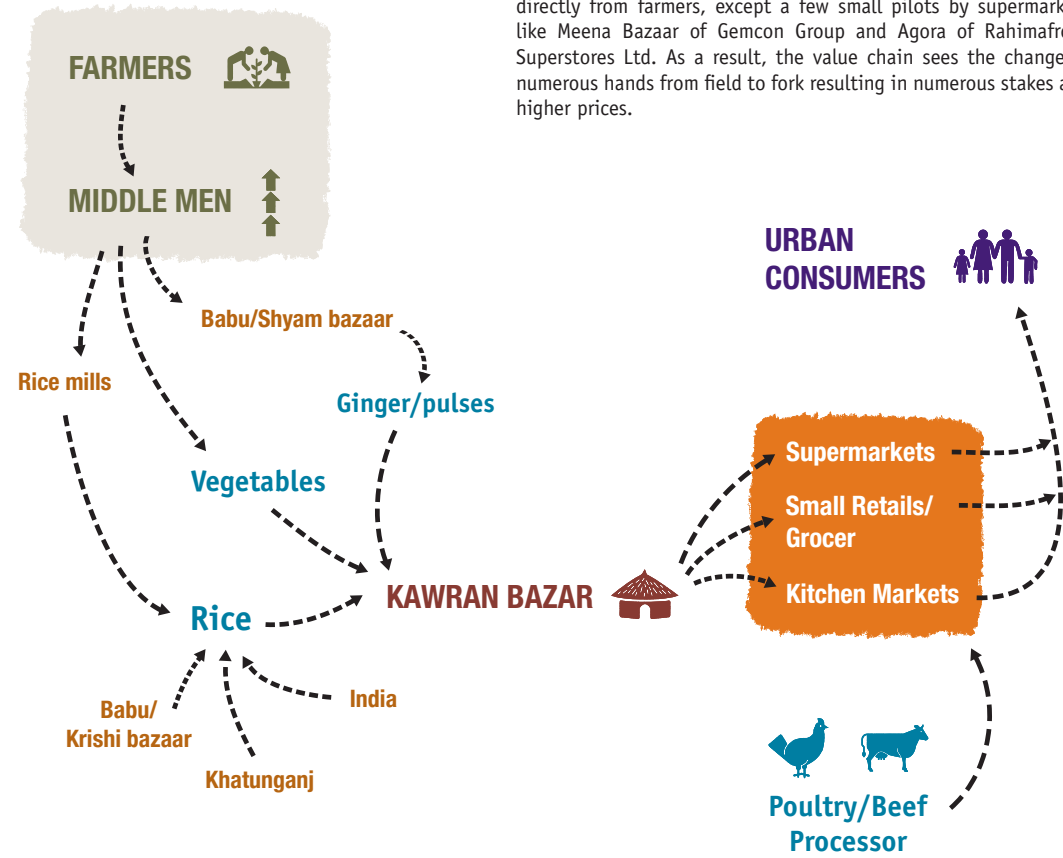
Sourcing Practices of Retailers in Dhaka

Food retail in the urban areas of Bangladesh including Dhaka is still dominated by kitchen markets and small groceries. Generally, the central hub for wholesale supplies of commodities like rice, lentils and spices is Kawran Bazaar while protein is sourced from beef/meat processors, middlemen and poultry farms.

Just like kitchen markets and groceries, supermarkets continue to source from Kawran Bazaar that has monopolized food wholesale in Dhaka through its various traders who procure vegetables from middlemen who purchase food from around the country. Sometimes the traders of Kawran Bazaar source products by themselves from rural markets.

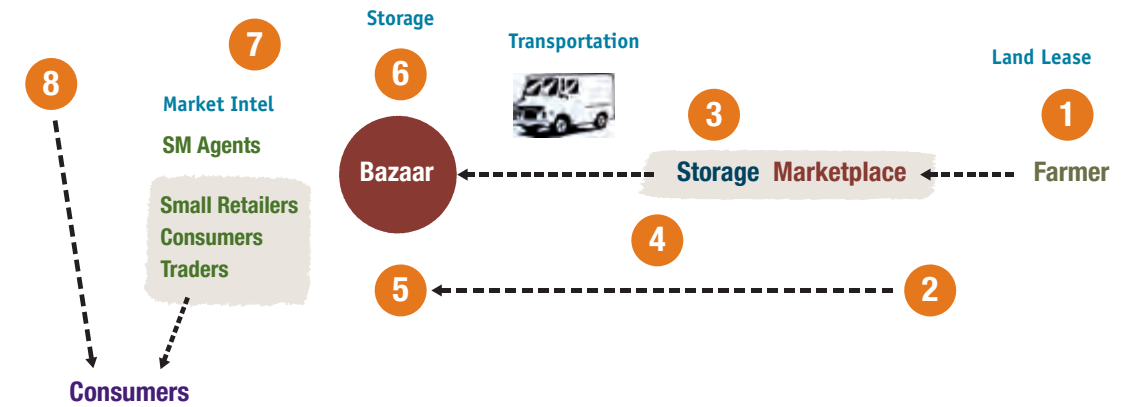


Figure 1: Existing Supply Chain



While rice is procured from multiple sources including rice mills, Babu Bazaar, Shyam Bazaar, Khatunganj or India, vegetables are sourced mostly from middlemen. Ginger and pulses are sourced from Babu/Shyam Bazaar. Chicken and beef are sourced from meat processors and Kawran Bazaar has limited role. The common aspect across all these value chains is that there is almost no sourcing directly from farmers, except a few small pilots by supermarkets like Meena Bazaar of Gemcon Group and Agora of Rahimafrooz Superstores Ltd. As a result, the value chain sees the change of numerous hands from field to fork resulting in numerous stakes and higher prices.

Figure 2: The Numerous Actors in the Value Chain



In the absence of a direct sourcing mechanism, as much as 30 percent additional mark up is lost to the intermediaries. Supermarkets for instance, via this model command about 10 to 12 percent of this 30 percent and farmers get about 3 to 4 percent. The remaining 14 to 15 percent is taken by other actors like trader/ bulk buyer at the rural markets, transport provider and wholesale traders at the city based markets (Kawran Bazaar for perishables, Babu Bazaar and Shyam Bazaar for commodities).

Given this high share of the value chain earnings going to intermediaries, the shares of farmers and retailers are minimized. The absence of direct sourcing model especially for the lesser known and smaller supermarkets like Family Needs means that the total pie has to be divided into several procurement intermediaries while keeping the selling price above wet market levels. Except for the bigger players, who

have investment to sustain, this has led to closure of many smaller superstores due to sharp rise in overheads – rent, utilities, salaries and maintenance costs. As a result, small supermarkets go out of business with significant debt burdens. Furthermore, the market growth is also affected since higher prices mean a significant portion of the middle class is remaining untapped. In 2012 alone 8 supermarkets in Dhaka have closed down for not being able to sustain their investment with sales volume and margin. Compared to India where supermarkets command a margin of almost 30 percent on average Bangladesh claims only around 12 percent. Would direct sourcing help improve shared prosperity across the value chain and help formal trades like supermarkets and also increase the farmers’ share of the pie? Yes, but there are major constraints that need to be practically mitigated.

Organizing farmers and carrying out production planning especially with a large number of small farmers requires strong field presence



Is Direct Sourcing Feasible in Bangladesh?

What makes urban retailers including supermarkets turn away from direct sourcing? This question has come up time and again with no clear answer. At this point, it is important to assess the practicality of direct sourcing as a mechanism to be adopted by the formal retailers in the food sector.

Small Scale of Operation

Most formal retailers like supermarkets, small grocers and retailers have relatively moderate scale of operation that does not justify heavy investment across the value chain for strengthening backward linkage from farm to fork. The general preference of customers to buy food from kitchen and wet markets in search of 'freshness' and low cost have tended to narrow down the scope of larger grocery stores and supermarkets. As a result, economies of large scale operation are hardly to be seen. This makes it challenging to singlehandedly carry out the following and instead, formal and informal retailers resort to outsourced supply hubs:

Managing the Logistics of Sourcing Multiple Products

A supermarket on average sells a range of 3,000-4,000 products. Carrying out sourcing of each product in-house would actually result in higher operations costs. Food retailers therefore find economies in using intermediaries.

Organizing Farmer Groups and Ensuring Grading and Sorting

Organizing farmers and carrying out production planning especially with a large number of small farmers requires strong field presence. Carrying out grading and sorting of products according to retailer specifications also becomes difficult due to lack of control over inputs. Aggregating small outputs from numerous small farms also adds to the problem.

Slowly Evolving Contract Farming

The concept of contract farming remains little explored due to market asymmetry in Bangladesh. Both farmers and retailers breach contracts for better deals with small price differences.

Lack of Cold Chains

Cold storages are largely inadequate in Bangladesh due to the high investment involved as well as the strict regulatory requirements needing upto eleven licenses out of which eight need to be renewed annually (IFC, 2013). The existing cold storages are mostly used for potatoes. As a result, for highly perishable items like vegetables, traders tend to transport products from rural to urban areas on a daily basis without storing them remotely and the relatively high transport cost gets shared among numerous retailers buying from the respective traders or wholesalers.

Transportation, Infrastructure and Political Unrest

Given the generally weak infrastructure including poor rural roads, transportation is difficult and expensive. A regular trip to carry 15 tons costs as much as BDT 35,000 (US\$ 500) which is often equal to the value of the products being transported from rural to urban areas. That pushes up the intermediary mark up significantly. During political unrest and blockades, the transport cost doubles. This is difficult to be shouldered alone by individual retailers.

What Makes Urban Retailers Turn to Indirect Sourcing?

Instead, retailers including supermarkets increasingly turn towards intermediaries and middlemen who provide four crucial value additions which make them indispensable to supermarkets:

Greater Flexibility in Supply Chain: Supermarkets can make instantaneous decisions on making orders and can cancel orders on a short notice.

Credit Facility: Almost all middle-men provide credit period ranging from 7-30 days depending on sales volume. This helps the supermarket better manage working capital.

Quality Assurance and Control: Middle-men are aware of the quality parameters of supermarkets and accordingly procure and sort before delivering to sales.

Return of Unsold Goods: Some middle-men allow return of unsold goods at the end of the day. This is normally provided by middle-men providing perishables.

Can CARE's Assemble Markets Offer a Solution?

In an effort to bring markets closer to remote farmers of the northwest and bridge the gap between them and formal markets, CARE began creating rural assemble markets more than a decade ago. The markets intended to:

Provide a platform to smallholder remote farmers for sale of their products to formal market buyers

Provide an aggregation point for urban wholesalers and traders to procure smallholder farm products in bulk

Help women farmers gain access to formal markets

Create a transparent and accountable mechanism to determine prices collectively with wholesalers and give a voice to the farmers

Put in place a community led market management committee to sustainably administer the market beyond CARE's period of intervention

Create access to agro inputs

Create access to information

For over a decade, CARE's rural assemble markets have been helping women farmers gain access to formal markets



Several of CARE's agro interventions (SETU, SHIFT, SHOUHARDO, Interfish) have created and built on assemble markets to strengthen and expand the innovative approach to creating market access for remote rural farmers. As many as 50 – 60 assemble markets were created in the northwest through various CARE projects. The communities quickly realized the importance of these markets as they directly related them to their inherent need of market access for their agricultural products and as a result, utmost

cooperation was extended from villagers including donating personal land for market expansion.

As CARE projects phased out, the assemble markets came out of incubation and embarked upon their journey of sustainability. Most have succeeded and CARE has managed to stay in touch with at least nineteen of them as listed in the following table.

Table: Assemble Markets of CARE Bangladesh (Part I)

Name and Location of Assemble Market	Distance from Main City (City Name)	Number of Farmers	Crops	Buyer	Market
Gambura, Pirgacha, Rangpur	From Pirgacha 7 Km, From Rangpur 25 Km	3000/4000	Maize, bottle gourd, cabbage, cauliflower, potato, ash gourd, chili	Local	Dhaka, Noakhali, Chittagong
Mukutpur Vegetable market, Gongachora, Rangpur	From Gongachora 8 Km, From Rangpur 22 Km	2500	Maize, bottle gourd, cabbage, cauliflower, potato, chili, sweet gourd, bitter gourd, peanuts	Local	Rangpur, Bogra, Dhaka, Noakhali, Chittagong
Sabdol Vegetable Market, Saptibari, Lalmonirhat	8/10 Km	2000/2500	Snake gourd, bitter gourd, sweet gourd, chili, ash gourd, bottle gourd, okra, brinjal	Local/Distant	Dhaka, Chittagong, Noakhali, Bogra, Rangpur, Sayedpur
Noksha vegetable Market, Saptibari	10 /12Km	2500/3000	Snake gourd, bitter gourd, Sweet gourd, chili, ash gourd, bottle gourd, okra	Local/Distant	Dhaka, Chittagong, Noakhali, Bogra, Rangpur, Sayedpur
Abdur Jabbar Vegetable Market Bothlagari, Sayedpur, Nilphamari	10 Km from From Sayedpur, 20km Nilphamari	3000/3500	Snake gourd, bitter gourd, sweet gourd, chili, ash gourd, bottle gourd, okra, brinjal, cabbage, cauliflower, long bean, bitter gourd	Local/Distant	Dhaka, Chittagong, Noakhali, Bogra, Rangpur, Sayedpur, Nilphamari
Fakirhat Assemble Market, Polashi Union, Lalmonirhat	From Fakir hat 3/4 Km from Lalmonirhat 20km	2000/2500	Rice, fish, maize, potato, brinjal, bottle gourd, long bean, cabbage, chili, cauliflower	Local/Distant	Dhaka, Chittagong, Noakhali, Bogra, Rangpur, Noakhali, Sayedpur, Nilphamari
Kalisha Chapani Chili Market, Chapani Union, Dimla, Nilphamari	From Dimla 15Km, From Nilphamari 55 Km	2000/2500	Rice, fish, maize, potato, brinjal, bottle gourd, long bean, cabbage, chili, cauliflower	Local/Distant	Dhaka, Chittagong, Noakhali, Bogra, Rangpur, Manik gonj, Joshore, Khulna, Sylhet, Lalmonirhat, Sayedpur
Akkelpur Assemble Market, Akkelpur, Joypurhat	From Akkelpur 5 km, From 27 km Joypurhat	2500/3000	Brinjal, tomato, sweet gourd, bitter gourd, snake gourd, potato, rice	Local/Distant	Akkelpur, Joypurhat, Dhaka, Nowgaon
Belka Assemble Market, Sundorgonj, Gaibandha	10 km from Sundorgonj, 25 km from Guiana	3000	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya	Local/Distant	Sundorgonj, Bogra
Char Shibdebpurr Assemble market, Pirgacha, Rangpur	10 km from Sundorgonj, 30 km from Gaibanda	2500/3000	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya, maize	Local/Distant	Pirgacha, Rangpur

Table: Assemble Markets of CARE Bangladesh (Part II)

Name and Location of Assemble Market	Distance from Main City (City Name)	Number of Farmers	Crops	Buyer	Market
Char Tambol pur, Pirgacha, Rangpur	10 km from Pirgacha, 30 km from Rangpur	3000	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya, maize, ash gourd	Local/Distant	Pirgacha, Rangpur, Dhaka
Darai Assemble Market, Gabtoli, Bogra	5 km from Gabtoli, 20 km from Bogra	2500/3000	Brinjal, sweet gourd, bitter gourd, cabbage, cauli flower, snake gourd, potato, bottle gourd, papaya, ash gourd	Local/Distant	Noakhali, Chittagong, Bogra, Dhaka
Chalk Sindu Inter fish Project, Gabtoli, Bogra	10 km from Gabtoli, 27 km from Bogra	2000/2500	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya, maize, ash gourd	Local	Dhaka, Chittagong, Bogra
Shaghata Bazar, Gaibandha	10 km from Shaghata, 30 km from Gabtoli	2000/2500	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya, maize, ash gourd	Local	Gaibandha, Bogra, Dhaka
Taltola Assemble Market, Mithapukur, Rangpur	10 km from Mithapukur, 30 km from Rangpur	4000/5000	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya, coriander, ash gourd, chili	Local/Distant	Bogra, Dhaka, Noakhali, Chittagong
Ruper Bazer, Gaibandha Sador	8 km from Gaibandha Sador	2000/3000	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya, coriander, ash gourd, chili	Local/Distant	Dhaka, Gaibandha, Chittagong
Mastan Bazar, Gabtoli, Bogra	8 km from Gaibanda, 25 km from Bogra	2500/3000	Brinjal, sweet gourd, bittergourd, snake gourd, potato, bottle gourd, papaya, coriander, ash gourd, chili	Local/Distant	Dhaka, Gaibandha, Chittagong, Bogra
Belka Mahejhan Assemble Market, Sundorgonj, Gaibandha	7 km from Sundorgonj, 27 km from Sundorgonj	3000	Brinjal, sweet gourd, bitter gourd, snake gourd, potato, bottle gourd, papaya	Local/Distant	Dhaka, Gaibanda, Chittagong
Nurur Modh Assemble Market, Domar, Panchagarh		5000	Potato, radish, onions, garlic, chili, ginger, turmeric, cabbage, cauliflower, coriander, tomato, brinjal		Dhaka, Chittagong, Savar, Thakurgaon, Modhupur

Assemble Market Insight 1: It's Hanif's Market!

Khalisha Chapani Chili Market, Dimla, Nilphamari

One of the largest chili markets in the northwest, Khalisha Chapani is affectionately known more as CARE staff 'Hanif's' market! Years of dedicated work with the villagers starting from helping establish the market to setting up sanitary latrines has earned this invaluable recognition to Hanif Ali who has been working as a Community Facilitator for CARE's Rangpur office for almost two decades.

The market is the sole window to formal markets for almost 800 farmers who cultivate 500 acres of land. Products of three unions are aggregated at Khalisha Chapani. Green chili is the chief product of this market and the peak harvest season starts from end of March and runs till mid June. As much as 18 tons of green chili are sold each day during the peak season through three trucks to Khulna, Ishwardi and Nator. The farmers take a pause after enumerating three cities – they look unsure whether the chilies change more hands and travel a few more cities before they reach the final destination. This is when Bablu Rashid, a commission agent steps in to enlighten us. He lives close to the Khalisha Chapani market and has found the job of contacting

wholesalers and traders he knows and do quick daily surveys of market prices. He then collects chilies from farmers who want to sell on a particular day and brings the products to the assemble markets on vans. There are 19 more agents like Bablu and each employs about 20 more day laborers to help with collection, transportation and packaging. Agents like Bablu charge a fee of BDT 50-60 per 40kgs of sale.

During the rest of the year when chili production dwindles, Khalisha Chapani market trades rice. Munshiganj, Pabna, Naogaon, Rangpur and Dhaka are the key rice destinations for the assemble market. As much as 45 tons of rice is traded each day from the market, and agents like Bablu Rashid take a seasonal shift and become rice agents till chilies reappear.

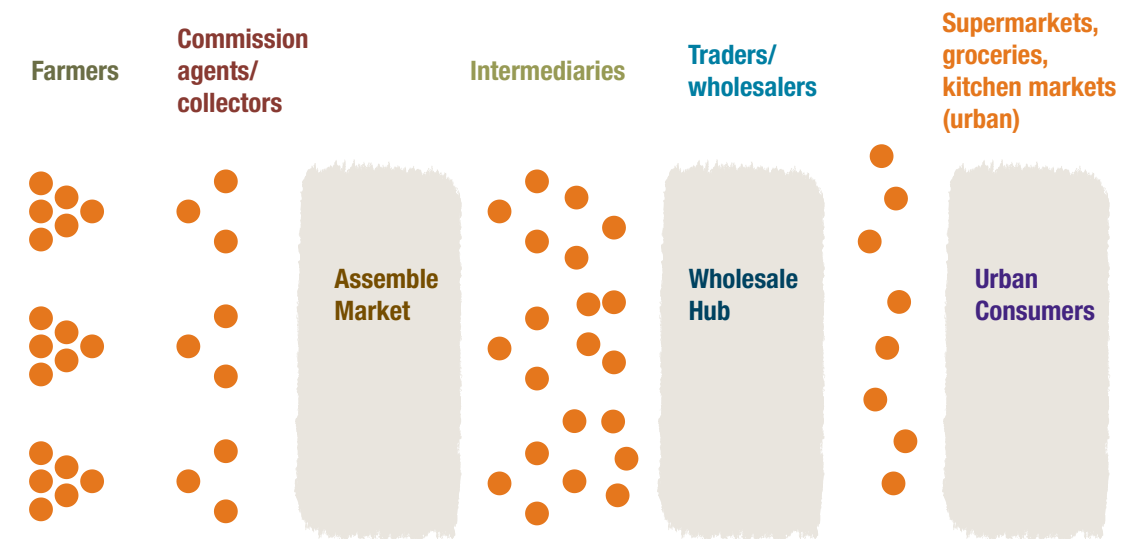
Noor Mohammad, a respected community elite who has contributed his own land to the expansion of the market and currently heads up the 31 member market management committee of Khalisha Chapani responds with a wide grin when asked "What problems are you facing with the market currently?". He says "We have no problem. We are very happy!".



CARE's assemble markets are bringing prosperity to remote farmers. Supermarkets and other large retailers might unknowingly be procuring from many of these markets, but the products are losing their original identity to innumerable invisible hands intervening in between. Intermediaries are important. However, whether their services are indispensable relative to the amount of margin and supply chain control their intervention imposes is a question worth asking. At Khalisha Chapani, Bablu Rashid, the commission agent is of the opinion that prices increase twofolds by the time they reach the final consumer market and much of it goes to transport providers.



Figure 3: The Current Scenario of Supply Chains Originating in Assemble Markets



Assemble Market Insight 2: An Example Worth Replicating!

Nurur Modh, Damar, Panchagarh

Nurur Modh assemble market is named after a sweetmaker who donated his only piece of land so that the market could be set up and the farmers in his locality could have an access to formal markets. The market operates using the same mechanism as Khalisha Chapani but it is far more diversified in terms of the number of crops it aggregates and sells including vegetables, potatoes and spices – turmeric, ginger, garlic, yielding year round harvesting and sales. 5,000 farmers supply to this assemble market. The broken and winding roads which took us to the Nurur Modh assemble market in the far northwest corner of the country say little about how well connected this assemble market is to major wholesale hubs across the country, including Kawran Bazaar in Dhaka, and major bazaars in Savar, Chittagong, Tangail, Modhupur, Thakurgaon and how innovatively the agents package the products in net bags to be transported.

Mollah, a prosperous local farmer proudly says that during the peak season, the market sees daily transactions rising upto BDT 1 million, against trade volumes of upto 150 tons. This market could actually be cited as the closest representation of direct sourcing as many traders of Kawran Bazaar in Dhaka procure products directly from the market and bring them to Dhaka to be purchased by urban retailers and distributors.



As much as the happy assemble market farmers tell us of their success stories, there are some untold and perhaps even unrecognized challenges that are evident to neutral eyes. Such challenges if mitigated could open up valuable opportunities for the farmers as well as food traders, wholesalers and retailers in urban areas.

Access to information: The commission agents seem to have monopolized agro trade and are the only links the farmers have to wholesalers and/ traders. There is hardly any way for farmers to know about market information other than with the help of the agents.

Limited involvement of women: Though one of the initial aims of the assemble markets was to bring markets close to women farmers, today, women's involvement does not seem evident mostly due to cultural inhibitions.

Poor infrastructure and limited land: Concrete roads lead to most assemble markets but the roads are unfit for heavy transportation to ply and the market spaces are inadequate to accommodate parking of large vehicles.

Vague standards of grading and sorting: Though the assemble markets manage to sell everything that the farmers produce, a production planning mechanism could help enhance the farmers' share of earnings and reduce risk of over production and low prices. Crop sale deals are struck and finalized on a daily basis and there is no long term contract between buyers and farmers. Moreover, appropriate planning could ensure year round high value cropping, diversified risk and higher revenues for farmers and all involved.

Lack of proper storage facilities: Farmers have come up with innovative storage facilities within the market but storing perishables continues to be a challenge. As a result, perishables must be sold within the same day even if it means selling to the local consumers at cost price. Cold storages are inadequate and expensive, mostly available for storing potatoes at BDT 350 per sack for nine months.

Envisaged outcomes from an intervention

1. Better quality and more timely production of agricultural products matching market demands matching market demand
2. Improved earnings of farmers and reduced risk of overproduction and low prices
3. Improved control of urban retailers over their supply chains
4. Bulk buying by retailers like supermarkets in expected standards (grading/sorting/packaging) directly from the field

The Proposed Model

An enterprise to streamline sourcing by urban retailers can be put in place to cut down the layers of intermediaries in between an assemble market and a wholesale supply hub in an urban area. This should help reduce the impact of several intermediaries each carving out a share in the pie and eventually raising the cost of the product two or threefolds by the time they reach the final consumer. The sourcing enterprise will be linked to all assemble markets of CARE and provide the following services:

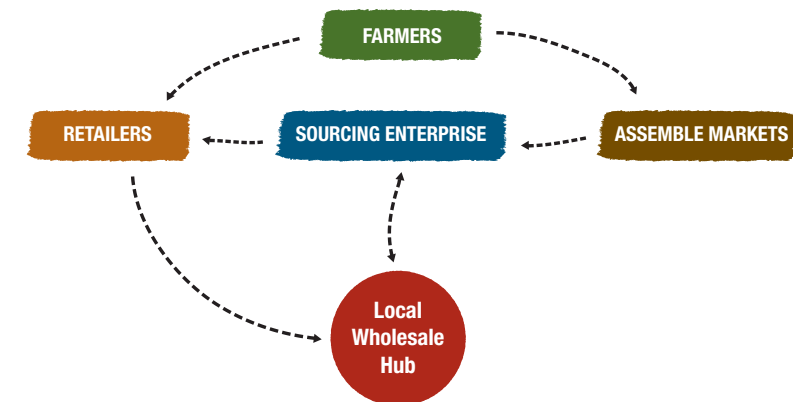
- Production planning based on market demand;
- Aggregating and selling in bulk (mostly commodities and spices, initially less of perishables) from numerous assemble markets to enjoy economies of scale and offer relatively low prices to retailers like supermarkets;
- Receipt of procurement orders from retailers (including supermarkets and large groceries) through mobile phone and/or a web based portal
- SMS based notifications to assemble market based managers on required quantities of crops and dates based on market demand;
- Training to farmers on good practices of agriculture and the use of agro inputs, crop preservation, sorting and grading, with emphasis on women farmers;
- Grading and sorting of products to be transported to retailers;
- Management of rentals of cold storage and transport services;
- Enabling farmers a higher share of the final price;
- Regular updates to farmers mapped to assemble markets on price and the option to choose buyers competitively.

For emergency procurement, the sourcing enterprise will also explore procuring from local procurement hubs including Kawran Bazaar and Babu Bazaar and markets adjacent of Dhaka e.g. Savar at preferential pricing due to bulk purchase.

The sourcing enterprise will train farmers on good practices of agriculture, with emphasis on women farmers



Figure 4: Proposed Agro Sourcing Model





Acronyms

BBS	Bangladesh Bureau of Statistics
GAIN	Global Alliance for Improved Nutrition
GDP	Gross Domestic Product
IFC	International Finance Corporation
PFDS	Public Food Distribution System
SETU	Social and Economic Transformation of the Ultra-Poor
SHIFT	Strengthening Poorest and Vulnerable Households Capability to Improve Food Security
SHOUHARDO	Strengthening Household Ability to Respond to Development Opportunities



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