



**USAID**  
FROM THE AMERICAN PEOPLE

# DISPUTE LANDSCAPE & MARKET GOVERNANCE

BANGLADESH AGRICULTURAL VALUE CHAIN PROJECT

LAWRENCE E. TWEED

APRIL 2016

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI.

# TABLE OF CONTENTS

I.	INTRODUCTION.....	3
II.	SUMMARY OF FINDINGS.....	3
III.	METHODOLOGY & ASSESSMENT APPROACH .....	4
IV.	FINDINGS .....	5
	A. TERMINOLOGY AND CONTEXTUALIZATION .....	5
	B. TRADERS: A SYSTEMIC NODE .....	5
	1. AROTDARS .....	6
	2. ASYMMETRICAL CO-DEPENDENCE OF TRADERS .....	6
	3. TRADERS (AROTDARS) LENDING TO FARMER .....	7
	4. AROTDAR SAMITY (AROTDAR ASSOCIATIONS) .....	7
	C. ACCESS TO FINANCE & LOANS .....	8
	1. LENDING AS AN INFORMAL MARKETING COST & RISK MITIGATION MECHANISM ..	8
	2. LENDING PATTERNS VARY BY VALUE CHAIN .....	8
	3. AG-INPUT RETAILERS & CREDIT TO FARMERS.....	9
	D. ADDITIONAL INFORMATION .....	9
	1. LACK OF ORGANIZED FARMER GROUPS.....	9
	2. LAND .....	9
	3. VILLAGE COURTS.....	9
	4. GRADING & STANDARDS .....	9
	5. PERCEPTION OF TRADERS DEALING UNFAIRLY.....	10
	6. ACCESS TO MARKETS .....	10
	7. THE COST OF RISK AND WHO BEARS IT? .....	11
	8. HIGH-VALUE, PERISHABLE CROPS .....	11
V.	CONCLUSION .....	12
VI.	RECOMMENDATIONS .....	12
	A. DEEPER LEARNING .....	12
	B. INCREASING VISIBILITY OF FAIR, VALUED & INCLUSIVE GROWTH ORIENTED TRADERS .....	13
	1. BUSINESS SKILL PILOT.....	13
	2. USE GUIDED PEER-TO-PEER TRAINING TO IDENTIFY POTENTIAL CHANGE AGENTS.....	13
	C. TEST NOVEL BUSINESS MODELS THAT PROMOTE INCLUSIVE GROWTH.....	13
	ANNEXES.....	15
	A. LITERATURE REVIEW.....	15
	1. ROLES OF MARKET ACTORS SUCH AS TRADERS .....	15
	2. LEGAL LANDSCAPE AND ADR IN BANGLADESH.....	15
	B. LIST OF INTERVIEWS .....	17

# I. INTRODUCTION

The Bangladesh Agricultural Value Chains project identified a need to better understand the dispute landscape and market governance system of Bangladesh in order to effectively work plan appropriate interventions relative to the domestic market. The Market Governance Assessment began as an investigation into the frequency, acuteness, and resolution of disputes between market-actors within USAID's zone of influence<sup>1</sup>. Disputes are a common expression of behavior emerging from the complex relationships and transactions inherent in market systems. The presence of disputes is neither good nor bad<sup>2</sup>, however, by looking at how frequently disputes occur, their underlying causes, and the avenues for recourse and resolution, we can begin to probe and sense the effectiveness of a market's governance structure.

Through key informant interviews and focus group discussions with a variety of market actors, we surveyed the landscape of disputes and learned that acute or "hot" disputes (e.g. disagreements that escalate in intensity, often pushing the parties toward more entrenched positions) rarely occur between upstream market actors. Although "hot" disputes rarely surface, we uncovered behavior patterns (lack of transparency and codification of standards, reluctant use of written agreements, extractive and predatory lending) indicative of market systems that are less inclusive.

# II. SUMMARY OF FINDINGS

Disputes between upstream market actors are rare. When they manifest, they often emerge from monetary disagreements (e.g. the terms of a loan or price offered for goods). In the examples we heard, most parties (e.g. typically farmers and traders) resolved disagreements themselves – often by negotiating toward a middle ground. In the few examples where a dispute persisted and/or escalated, then a proximal third party<sup>3</sup> (usually another farmer or trader) would step in to help resolve the issue.

It should be noted that official legal systems (e.g. courts) or culturally traditional systems (e.g. shalish – a traditional form of mediation in Bangladesh) are rarely invoked to resolve disputes between upstream market actors (ag-input dealers, traders and smallholder farmers). Furthermore, although forms of alternative dispute resolution (ADR) like arbitration and mediation are becoming institutionalized in Bangladesh – to date, they have predominantly been: (1) utilized by larger, established firms; or (2) promulgated by humanitarian/development projects seeking to give the most vulnerable populations (youth, women, itinerant laborers, etc.) a voice and access to justice.

The reasons behind the rare expression of "hot" disputes are likely nuanced and complex. A number of cultural, socio-economic factors (e.g. fatalism and acceptance of social ranking; inclination toward maintaining social harmony; and perhaps even an incipient willingness to see relationships in terms other than zero-sum) may play a role in their paucity and the tendency toward self-resolution when they do occur. Indeed, the scarcity of disputes may be

---

1 One indicator of effective market governance is the quantity and qualitative nature of disputes. When disputes remain unresolved and/or certain market actors are commonly at the losing end of disputes, it typically indicates ineffective governance.

2 In fact, some argue that disputes can be a regenerative process where relationships and power dynamics sometimes disentangle, reset and/or recombine in new ways.

3 These third parties usually are other farmers, traders or sometimes a respected member of a community or relevant association (e.g. farmer's group or arottdar association)

a systemic expression of a market system moving toward a healthier governance<sup>4</sup> structure in Bangladesh.

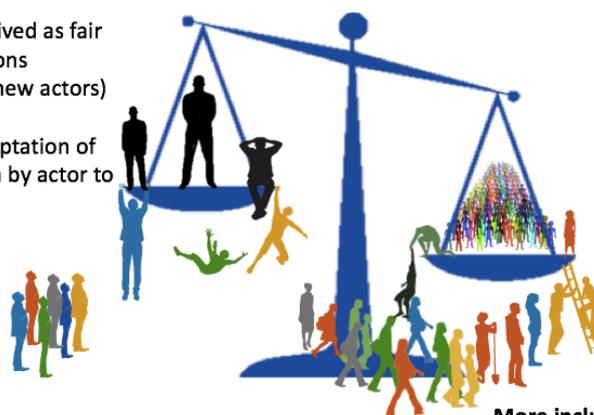
While the market-system may be showing signs of a transition, deep undercurrents of mistrust and uncertainty, and power-asymmetry are evident in upstream market actor relationships (esp. between traders and farmers). Where effective market governance tends to promote trust by reducing uncertainty and rewarding clear and transparent conduct, the transactional atmosphere in Bangladesh remains opaque. The vast majority of sales and loans go undocumented; informal fees are often extracted from farmers; quality and grading standards remain unclear; and ag-produce is often bought and sold using differing systems of measure. In addition to this opacity, smallholder farmers' access to finance and downstream market information often does not extend beyond their local trader.

## Market Governance Framework

Criteria to assess the growth/inclusiveness orientation of governance

### Less Inclusive

- Low % of transactions perceived as fair
- Low rate of repeat transactions
- Low rate of growth in new (new actors) transactions
- Low rates of adoption & adaptation of good/better practices driven by actor to actor interactions



### More inclusive

- High % of transactions perceived as fair
- High rate of repeat transactions
- High rate of growth in new (new actors) transactions
- High rates of adoption and adaptation of good/better practices driven by actor to actor interactions

## III. METHODOLOGY & ASSESSMENT APPROACH

Prior to beginning the market governance assessment, Consultant, Lawrence Tweed, (1) conducted a review of existing literature on Bangladesh agricultural market actors and Bangladesh's legal landscape (formal and informal approaches to dispute resolution). See the Annex A for a list of literature reviewed. Mr. Tweed then paired-up with a member of AVC's local staff and together they (2) held a series of meetings to learn from the AVC Team about the known/perceived disputes and power dynamics between market actors (3) identified key market actors to interview (example interviews are featured in the Annex B), (4) agreed on the assessment methodology and approach.

---

<sup>4</sup> Additional market-systems signals (e.g. farmers' independently searching out and testing different seed varieties, information sharing) support the notion of an incipient transition toward a healthier-market system.

## IV. FINDINGS

### A. TERMINOLOGY AND CONTEXTUALIZATION

Agricultural traders in Bangladesh play various roles (aggregators, wholesalers, middlemen, commission agents) and go by many names – arotdars, beparis, faria, paiker. Distinguishing traders' roles within various value chains can be difficult, and even more challenging when various regions use names interchangeably. Accordingly, we use the general term “trader” to signify anyone who buys agricultural produce for the purpose of making a margin by selling that produce at another market or at the same market in the future. In certain contexts, however, more delineation of a particular traders' role is needed to provide clarity about how they interact with other market actors in the system. Accordingly, when needed for contextual clarity, we will use the more specific terms and definitions below.

#### **Itinerant Aggregators ( or Faria in Bangladesh)**

“Faria” are usually itinerant aggregators moving from farm to farm or collection point to collection point. Faria are usually either independent entrepreneurs buying from farmers and selling to wholesalers on a case-by-case basis, or commission agents within a wholesalers extended network, entrusted with the responsibility of sourcing produce. Faria often have a network of farmers from whom they buy from on a regular basis.

#### **Collection Points (or Arot in Bangladesh)**

The word “arot” means “space” as in a warehouse or wholesalers market stall. The “arots” are collection/aggregation points and defacto trade hubs. “Arots” can either be rented or owned. In some markets, the local government or a business person owns the land and market's infrastructure and leases the market stalls to the arotdars. In other markets, the market stalls are parceled out and sold with title to the physical space. The number and size of the arots vary significantly. For example, in a smaller, local market there may be only a few arots while a larger, regional or national market may have dozens or hundreds of spaces.

#### **Wholesalers (or Arot dar in Bangladesh)**

“Arot dar” is the owner/manager of an arot or stall. Arotdars are wholesalers often purchasing from faria or farmers – sometimes buying a farmer's entire harvest. While some arotdars function as retailers and/or suppliers for local retail markets, others may function as aggregators and commission agents for more distant and lucrative larger (regional and/or national) wholesale markets.

#### **Professional Traders (or “Paiker” and “Bepari” in Bangladesh)**

Depending on the location, the terms “paiker” and “bepari” often refer to professional traders who buy produce from one wholesale market -- arrange transportation and delivery -- and sell to a buyer or buyers in an another (wholesale or retail) market. Sometimes paikers/beparis are fronted cash by a larger trader (e.g. a large-scale arot dar at a national bazar) obligating delivery – in which case they will receive a commission after delivery and subsequent sales. Other times, paikers/beparis trade with their own capital – in which case they can determine whom to sell to.

### B. TRADERS: A SYSTEMIC NODE

The farmers we interviewed consistently identified traders (esp. arotdars and fariah) as the most “powerful” or “important” market actor that they do business with. Accordingly, much of the information we collected is on this key market actor.

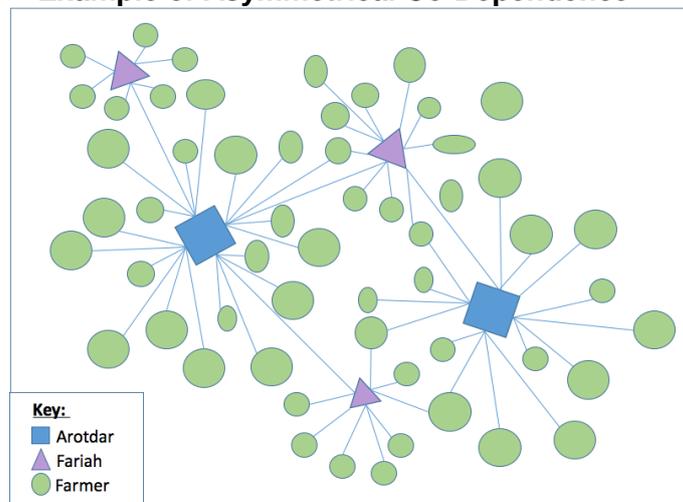
### Wholesalers or Arotdars

As defined above, one of the distinguishing features of an arotdar is that they control a physical space or “arot”. In smaller, village markets or “haats”, there may be only a few arotdars and they may play the role of wholesaler and retailer – buying from the farmers and selling to the consumers. As one moves from small village haats to larger regional markets, arotdars are more likely to be buying larger quantities from a larger numbers of farmers and traders (like faria, paikers) and functioning more as wholesaler than a retailer.

### Asymmetrical Co-Dependence of Traders

Traders, and especially arotdars, possess purchasing power and greater access to finance as well as access to broader networks and market information. Farmers usually transact with only a few arotdars each season, but as the aggregation and transaction hub, these traders often interact with hundreds of farmers and other traders each season<sup>5</sup>. Accordingly, the arotdars distributed network of numerous farmers reduces the importance that any one farmer has on their business. For example, if one farmer defaults on a small loan provided by the arotdar or if a farmer chooses not to sell their produce to a particular trader, this will have little to no impact on the trader’s business. Conversely, however, if a trader decides to cease conducting business with a farmer, then the farmer’s access to finance and ability to sell their produce might be significantly impacted. One can visualize this asymmetrical codependence by looking at the simple graphic below and assume one farmer (green circle) is removed. This would likely not have much effect on a fariah (purple triangle) and even less so on an arotdar (blue square). However, remove one of the arotdars or fariah and the impact on the farmer (e.g. access to market, travel distance, etc.) may be significant.

**Example of Asymmetrical Co-Dependence**



The majority of arotdars we spoke with have been in business as arotdars for a decade or more. This correlated with low report of turnover rates of available “arots” in wholesale markets. For example, in Char Fasson we learned that out of 36 arotdars, only 2-3 had gone out of business during the past year. We were told that turnover and availability of “arots” is usually due to death or poor business dealing. Arotdars interviewed claimed that anyone can become an arotdar, so long as you have the operating capital and an “arot” or space is available to rent or buy. Since market places are often owned/controlled by local government authorities, one might presume patronage networks play some role in determining who gets to be the arotdar (manager of the space). By continuing to place a premium on patronage and loyalty rather than merit and growth, the system has effectively evolved a process that

<sup>5</sup> An arotdar from a regional market mentioned he worked with about 800 farmers per season, and 1200 different farmers per year.

protects the status quo, ushering arotdars into positions of power whereby they are in business to extract value rather than add value – a model that clearly runs counter to inclusiveness.

Larger market wholesalers (e.g. Dhaka, Chittagong, etc.) buy produce in bulk predominantly from local and regional level intermediaries / traders (e.g. “arotdars”, beparis, paikers, etc.) whom they trust. Accordingly, small to medium market traders are tasked with procuring produce from farmers or faria, ascertaining the quality and sometimes grading the produce. Most smallholder farmers do not have direct access to larger national markets.

### **Traders (Arotdars) Lending to Farmer**

Although access to finance is discussed separately below, arotdars’ significant role in providing credit or finance to farmers (and sometimes faria), warrants its own discussion. Arotdars are often transacting with 100s of farmers and providing loans to a sizable percentage of them. For example, we spoke with two arotdars in Barguna – the first arotdar (Trader-A) did business with approximately 400 farmers and provided 1,000,000 taka / season to about 50% of these farmers, while the second arotdar (Trader-B) transacted with about 120 farmers and provided 200,000 taka in loans to about 50% of them. Accordingly, the average loan size /season / farmer from Trader-A was 5000 taka (\$64) and from Trader-B (\$43). In Barisal, one arotdar mentioned transacting with over 800 farmers / season and provided loans up to 80,000 taka to a single farmer.

Most arotdars stated that their lending agreements are oral contracts and the farmers we have met with confirmed that usually there are no written agreements regarding the loans. Terms of the loans varied: most are offered “interest free”; some loans are paid back seasonally (e.g. if the trader provided inputs in the beginning of the season); some loans exist in perpetuity with no stated payback period. While the traders reported that some farmers default on their loans (viz. leave the business relationships without paying the loan back), traders viewed this simply as the cost of doing business. More often than not, however, loans bind farmers to the lending trader resulting in high percentages of repeat transactions with the same trader.

**Outlier: Barisal Farmers Aversion to Traders’ Loans**  
*Farmers interviewed in several locations around Barisal town appeared uniformly disinterested and averse toward “dadons” (or loans) from traders. Some farmers explicitly stated that “loans cause problems” but the underlying reason for the aversion is unclear. Some AVC staff posit that it is due to the availability of alternative lending mechanisms (such as MFIs) particularly accessible to farmers in this region.*

With regard to the loans being provided “interest free”, there is evidence that farmers may be charged for borrowing in other ways. For example, some farmers (and a couple of arotdars) stated that the arotdars will buy produce at 1-2 taka less per kg for the going market price from farmers who are indebted to them. While some may see this as extractive or rent-seeking behavior, others might also view this as the cost of the loan. Further investigations into how usurious this practice is, could shed additional light on the actual cost of trader’s loans.

### **Arotdar Samity (Wholesalers/Arotdar Associations)**

Most mid-to-large size markets (e.g. markets ranging from 20 arots to literally 100s of arots in Kawran bazaar in Dhaka) have arotdar associations. Arotdar Associations run the spectrum in terms of function and activity. Membership dues amounts and collection frequency varies according to the market, activeness of the association, and size of the arotdars’ business. An arotdar in Char Fasson reported paying about 1500 taka per day during four peak season months, while another arotdar in Barguna mentioned paying only few hundred taka / month, but also revealed that the association had been defunct for the past two years after its chairman’s death. Active, functioning arotdar associations may perform a range of roles: security, organized social gatherings, implementation of rules and

standards of behavior, occasional dispute resolution, liaising / lobbying with local officials, new membership and even selection of new market locations and real estate purchases<sup>6</sup>.

### **C. ACCESS TO FINANCE & LOANS**

A majority of farmers we interviewed openly talked about their lack of access to finance as a key constraint. While some farmers may borrow via MFIs, the majority of farmers we spoke with relied heavily on informal borrowing mechanisms (loans from arottdars, farias, or professional lenders like dadondars and mahajan) to obtain cash, goods or services on credit. This account of farmers' borrowing patterns was bolstered by the interviews we had with arottdars, most of whom provide loans to large numbers of their farmers/suppliers. As mentioned above, the terms of these loans are usually based on oral agreements and rely heavily on the memories of the parties that entered them. Unsurprisingly, of the few disputes recounted by farmers and traders – they all involved oral agreements and the disputes were over the remaining balance or other terms of the loan or contract price.

#### **Lending as an Informal Marketing Cost & Risk Mitigation Mechanism**

In the Bangladesh market systems, loans may also be viewed as marketing tools or the “hooks” that capture a loyal clientele base (farmer-borrowers). In market systems, one indicator of healthy competitiveness is the rate of firms investing in their own growth to win new business and/or improve loyalty or stickiness. In Bangladesh, one way traders secure loyalty is by lending money (at no, or very low interest) to farmers. The precondition to the loan is the farmers promise to sell produce to the trader who is lending. Repayment terms are often not clearly defined. From the traders' perspective, it is an investment in securing repeat transactions. The farmer's debt obligation functions as the traders' risk mitigation mechanism by guaranteeing a steady supply of produce. The arottdars we interviewed from larger, regional markets<sup>7</sup> (where numerous wholesalers compete to purchase crops) reported levels of stickiness at 50% or more from season to season.

#### **Lending Patterns Vary by Value Chain**

In vegetable production where harvests can extend over a period of weeks or months, the frequency of quick, short-term loans (aka “dadons”) between farmers and arottdars increases as farmers frequently need cash to pay laborers, buy crop protection products or rent machinery. Whereas mango farmers tend to borrow larger amounts at the beginning of the season and spread the loan over a larger period of time until harvest and then pay it back after harvest.

There may also be correlations between value chain lending patterns and the likelihood for tensions and disputes. For example, larger loans to mango farmers are more likely to be formally documented in writing (and sometimes acknowledged by both parties) than smaller, but higher frequency loans between traders and vegetable farmers. Through the interview process, vegetable farmers generally expressed greater frustration and tensions toward traders than farmers in other value chains<sup>8</sup>. In some value chains (e.g. pulses, flowers, coir) borrowing from traders appeared less prevalent.

At the release of this report, AVC was engaging in an in-depth review of financial flows (including access to finance and borrowing habits). The outcome of this study should provide, deeper analysis of lending patterns.

---

<sup>6</sup> Members of the arottdar association in Char Fasson reported that their Samity had bought land and plans to relocate the wholesale market next year.

<sup>7</sup> In smaller local markets, repeat transactions may be the result of an oligopsony – a dearth of buyers to choose from.

<sup>8</sup> However, this may also be due to the risks associated with vegetable production, as these high value crops are also highly perishable.

## Ag-Input Retailers & Credit to Farmers

Ag-input retailers (sellers of seeds, fertilizers and crop protection products) are often informal lenders, providing inputs to farmers on credit. These informal loans are usually stated as “interest free”, but, retailers typically impose charges for these services in other ways. For example, sometimes the retail price paid for products purchased on credit is higher than the same products purchased with cash upfront. We also heard anecdotes from farmers and DAE officials of ag-retailers permitting farmers to buy on credit, but only if the farmers bought more expensive (and presumably higher margin) brands, recommended by the retailer.

## D. ADDITIONAL INFORMATION

### Lack of Organized Farmer Groups

We interviewed only a few “organized” farmer groups or cooperatives, however, few of these appeared to have formed organically (e.g. for the sake of pooling resources or leveraging quantities of scale), but rather had formed as a pre-condition to receiving goods / services from former or existing project interventions. For example, in the late 1990s and early 2000’s several projects focused on forming Integrated Pest Management (IPM) clubs / groups to provide farmers with information on pest management<sup>9</sup>.

### Land

The vast majority of farmers (over 75%) interviewed leased land in addition to the land they owned. Short term (1 – 3 years) leases prevailed over longer terms and the predominant disagreements that took place between farmers and landlords usually involved rent increases and/or non-renewal of lease agreements. Sometimes disputes over water rights or irrigation flows occurred as well. In one anecdote, we heard about a farmer who had farmed the land for five years, paying the land-owner 10,000 / year and making various improvements to the land. Then, without informing the farmer or offering the farmer the right of first refusal, the landowner leased the land to another farmer at a higher price.

### Village Courts

Although Village Courts are vested with the jurisdiction to hear cases of 75,000 taka or less, the Village Court official we met with in Bhola could not recall the last time he heard a case between agricultural market actors (e.g. farmers and traders). More common, though still infrequent, were cases between farmers (lessees) and land owners (lessors).

**Question:** *Could clearer, mutually agreed to standards provide greater clarity on the produce sought, strengthen trust between producers and traders and/or potentially reduce transactional costs and permit farmers to capture more value for their goods?*

Village courts operate on a limited basis (e.g. sometimes only one day per week) and hear a variety of cases. According to the court official in Bhola, Village Court officers receive mediation training. In the coastal areas of Feed the Future’s Zone of Influence, an organization called Coast Trust trains Village Court officials in alternative disputes resolution approaches (such as mediation). A further exploration of Coast Trust’s capacity is recommended in order to determine their ability and interest in providing business negotiation and/ or mediation trainings or services to interested market actors. Currently, there does not appear to be any existing local organizations that deliver business oriented mediation / negotiation trainings.

### Grading & Standards

With few exceptions, traders believe that farmers rarely conduct their own grading but rather harvest and sell their produce without prior sorting or grading. During the course of our interviews, we witnessed and spoke with several arotdars who conducted their own cleaning,

<sup>9</sup> See <http://www.fao.org/docrep/005/ac834e/ac834e0a.htm> for information regarding IPM groups in Bangladesh.

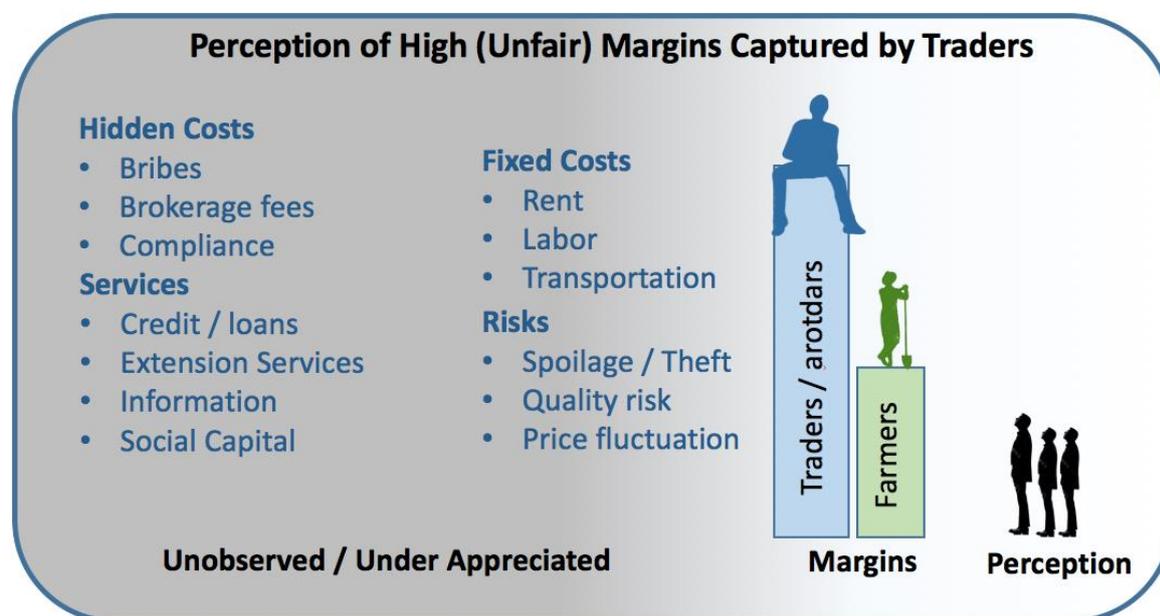
sorting and grading of the produce upon its arrival at their arot / wholesaler stall. For example, in the Khulna wholesaler market, one arot dar we interviewed hired laborers to quickly clean, sort and grade various vegetables, removing detritus and spoiled product before weighing and re-packaging for shipment to retail markets.

During a meeting in Jessore, wholesale mango buyers affiliated with Chesta Agro and the Adarsha Foundation explained that mango farmers often mix “Grade A” with “Grade B” mangos, so rather than pay separate prices for varying grades, they averaged the prices and paid the farmer one price for all mangos.

### Perception of Traders Dealing Unfairly

Like many countries, there is a general public perception in Bangladesh that traders cheat farmers and collude in various ways to raise their own profit margins. While the veracity of these claims is beyond the scope of this assessment, it is interesting to note that farmers rarely cited unfair trading as a major concern unless prompted by the interviewer. The concern about unfair trading practices and traders cheating farmers by offering them low prices was more often expressed by those less directly involved in the value chains (e.g. general public, DAE officials, et al). The examples offered most often compared the difference between the wholesale price paid to the farmer and the retail price paid by the end consumer. The disparity of these two prices was often proffered as proof of unfair business practices and it was usually given without any additional discussion of the costs, risks, and value addition that took place between farm and fork.

Again, this is not to imply that traders are not engaging in unfair business practices, or that farmers are not concerned about power disparities or lack of bargaining power. However, before propagating claims of price fixing and/or other non-competitive practices, it is important to recognize that traders do in fact add (albeit arguably in varying degrees) value to the market system.



### Access to Markets

Some farmers complained about receiving low prices for their produce and despaired over their lack of more direct market linkages and limited access to larger markets and wholesalers. Distance, suitable road infrastructure and transportation were all stated as market access issues for some farmers. Accordingly, these farmers were often more likely to sell their produce to a faria or transport their crops to a local collection point or the village market – rather than seek out markets paying higher prices. Further investigation is needed

to determine whether these decisions are based solely on a cost-benefit analysis by the farmers, or whether other factors may influence this decision.

### **Bhola: The Island's Market Veil**

Bhola is an island and crops produced there often make their way to larger mainland markets via “paikers” (local term used for the commission agent) who travel back and forth between the island and mainland. Only a few large-scale farmers have access to buyers beyond the island. Local arotdars and faria are the only buyers for the vast majority of farmers on the island. Some farmers reported that arotdars in Char Faison (one of the larger markets on Bhola) transact in secret with the paikers and do not share pricing information. Unlike many mainland market places where farmers can witness downstream transactions, subsequent transactions (arotdar→paiker) appear to be veiled from the farmer. Further investigation of this dynamic is needed to determine its veracity.



### **The Cost of Risk and Who Bears It?**

Although traders bear significant risks, there is also evidence of traders informally shifting their risk back on to farmers. For example, informal tolls based on estimated spoilage/loss calculations appear to be exacted from farmers by imposing demands for extra quantities. For example, farmers growing vegetables or pulses outside of Jessore may be paid for 40kg of produce when in fact they have actually provided the trader 41 or 42 kg. While these additional quantities appear negligible and are usually shrugged off as accepted practice, they may provide additional income (offsetting the risk) to traders. We note this behavior because risk calculations are usually built into the pricing mechanism. However in these cases<sup>10</sup>, the additional tolls may be signs of extractive behavior and warrant further investigation.

### **High-Value, Perishable Crops**

Based on our interviews, it appears that farmers involved with highly perishable crops (e.g. vegetables and flowers) may find themselves “trapped” by the lack of access to markets or buyers in the market system. Farmers interviewed from these value chains tended to express their situation in more fatalistic terms – for example “what can we do?” or “we have to sell to them” or “there’s no other option”. Additionally, the upfront costs of these value chains tended to be much higher and the likelihood of loans appears to be greater. The loop of financial dependency (e.g. the obligation to sell back to the trader who lent the money) appeared strongest in the vegetable value chain – where traders (e.g. arotdars) are often the only source of credit.

### **Mung Bean Season in Bhola**

*Near Charfassion, Bhola, farmers expressed tensions toward traders who they believe orchestrate the low price for mung beans at the beginning of each season. However, the president of a local mung bean association stated the issue differently, stating that the low prices were due to a glut at the beginning of the season since nearly all farmers plant and harvest around the same time. According to him, better coordination and staggered planting and harvests could help smooth the market.*

<sup>10</sup> Example of this behavior were cited by market actors across multiple value chains.

## V. CONCLUSION

Disagreements between upstream market actors (esp. farmers and traders) rarely surface as hot disputes, but deeper, more nuanced undercurrents of tension, mistrust and uncertainty flow between upstream market actors. While the mistrust flows bi-directionally between farmers and traders, traders wield more power and influence, and often engage in relic behaviors that shift risk and uncertainty onto their clientele (esp. farmers). These behaviors – e.g. squeezing as much profit out of their dealings with others rather than adding value by building trust and growing their business -- indicate unhealthy market governance. Smallholder farmers are often at the losing end of these deals, but, caught in a cycle of dependence, feel trapped in the system.

## VI. RECOMMENDATIONS

The assessment sheds light on the persistence of rent-seeking behaviors, transactional opacity and trust gaps which may be institutional relics of Bangladesh's historically hierarchical, patron-based social structure. Changes in behaviors are necessary in order to move the agricultural market systems towards more effective governance that results in more inclusive growth. In order to catalyze change, individuals and firms that add (rather than extract) value and build trust between their business partners need to be identified and encouraged. The recommendations below provide some ideas as to how this may be approached.

### A. DEEPER LEARNING

Additional qualitative and quantitative research is recommended to (1) determine how representative / pervasive the above findings are (e.g. systemic or outliers); (2) deepen the understanding of inherently complex relationships between market actors; (3) identify market actors' mental models, motivations and incentives and (4) help develop strategies for encouraging behaviors more in line with fair and valued transactions and business growth.

This could begin to be accomplished through relatively straight forward surveys on:

(1) Market actors' selection criteria for trading partners (the reasons behind who they choose to transact with);

(2) Farmer's satisfaction levels with the transaction process (e.g. questions designed to understand perceived levels of fairness, trust, communication, power/dependence, communication). In addition to providing insight into how satisfied farmers are with their traders, the results of this survey could also be used to identify "preferred traders" – that is, traders exhibiting qualities more aligned with adding value, acting fairly, transparency and inclusive economic growth.

(3) Examining preferred traders' behavior patterns (esp. how they invest in their relationships, maintain and build their clientele);

In addition to deepening the understanding of the complex relationships between key actors in Bangladesh's agricultural market systems, a deeper understanding could raise the potential for new ideas (re: leverage points, drivers of change; novel business models) to emerge and be tested.

## **B. INCREASING VISIBILITY OF FAIR, VALUED & INCLUSIVE GROWTH ORIENTED TRADERS**

Wholesalers or Arotdars are systemic nodes where pressures for innovative changes are mounting, where relics of hierarchical, patron-based systems are proving unhealthy (less-inclusive / uncompetitive /short-term oriented) and where pilot interventions testing different business models might yield changes in behavior.

### **Business Skill Pilot**

Test whether Business Skills and Marketing/Promotion activities might be used as tools to catalyze systemic change in market actor behavior. This might be done by:

- (1) Identifying traders/firms manifesting behaviors tending toward fairness and inclusivity;
- (2) Determining the traders' interest in participating in business skills trainings (self-selection);
- (3) Linking them with a business development firm that helps hone and expand their inclusive growth strategies (e.g. grading and standards, digital scales, receipt writing, simple loan forms, negotiation and mediation trainings) and teaches arotdars how to cascade these strategies down to their suppliers as well as how to market these strategies to their larger buyer networks.

A variety of indicators could be tracked over time to help assess the pilot's effectiveness. Initial indicators might focus on uptake of new behaviors or investments. Longer-term indicators might be a firms' increased business (measured by stickiness and churn rates), and copying/adoption of behaviors by other firms.

Based on the above indicators, behaviors tending toward inclusive growth strategies (e.g. adding value, reducing uncertainties and building trust) could further be amplified (e.g. awards, signage/advertising, mass-media, certifications, further training, etc.).

### **Use Guided Peer-To-Peer Training To Identify Potential Change Agents**

Peer-to-peer learning provides opportunities for individuals and firms to learn from one another in a non-threatening, collaborative, experience-sharing manner. By bringing different market actors (preferably whom are not directly competing) together, providing clear objectives and using simulations (de-contextualized but familiar situations), peer-to-peer learning creates a unique space for sharing ideas, strategies and lessons learned.

In addition to creating a space where inclusive growth strategies are encouraged, experiences are shared, and hopefully novel ideas/approaches are generated, the process can also reveal positive outlier behaviors of individuals and firms. Through guided questioning techniques, facilitators can assess understanding and perhaps identify potential change agents (e.g. an arotdar or faria exhibiting qualities of fairness and desire to invest in their business) to determine their interest in testing additional strategies. Thus, this peer-to-peer activity could itself play a role in the selection process for market-actors (who choose) to participate in further business skills development or business promotion (amplification) activities.

## **C. TEST NOVEL BUSINESS MODELS THAT PROMOTE INCLUSIVE GROWTH**

AVC is committed to encouraging innovative thinking by organizations or firms that view current systemic constraints as potential opportunities for inclusive economic growth. One

current constraint expressed by farmers is the increasing costs of labor and the lack of access to mechanized equipment. Accordingly, a potential pilot might test out business models that add value by aligning the interests of equipment owners and farmers in novel, more effective ways. For example, some “sharing-economy” business models (e.g. Uber, AirBnB, among many others) leverage a variety of innovation principles (shared-access, improved linkage, increased utilization, simplicity, empowerment) to add value and provide or facilitate services. In Bangladesh, individuals and firms often still rely on hierarchical, patron-based networks to delineate boundaries within which business can safely be done. Accordingly, there is a preference to conduct business within ones’ own network -- (e.g. the caste, family, political party, etc.), as the group provides access and protection in return for continued loyalty. When venturing beyond one’s network, there is often an expectation that one will be treated unfairly.

In shared economy models, the firms facilitating the exchange act as moral guarantors and protectors of both parties in the exchange, regardless of their respective patronage networks. Loyalty to the firm is not dependent upon which group you are in, rather it is earned through merit (value addition), satisfaction and trust. The more these firms consistently and effectively (fairly, safely, and easily) deliver on their goods or services, the more loyalty they hope to earn.

Accordingly, if interested, a firm could develop and test its own “shared economy” model. For example, a respected and functioning farmers association might take on the role of moral guarantor and facilitate farmers’ access to equipment by connecting them to equipment owners who seek to maximize the efficiency of their underutilized assets. Importantly, as the nexus between two clients (here it is equipment owners and farmers), the value proposition is based on aligning its clients’ interests irrespective of any allegiance to patron-based groups. Since the firm is the protector, bearing the risk as moral guarantor, it is incentivized to ensure the farmers receive the services they rented and that the owners are satisfied with the state of their equipment and the rate they received for its utilization.

There are a lot of assumptions in the above paragraphs and some initial ground work (e.g. a market analysis, strategic framing of the value proposition, viability of the financial platform, etc.) would need to be done to test some of these assumptions prior to a pilot. However, facilitating the experimentation of business models that promote fair and valued transactions seems directly in line with AVC’s objectives and theories of change.

# ANNEXES

## ANNEX A: LITERATURE REVIEW

### Roles of market actors such as traders: fariah, arotdar, paiker, bepari, et al.)

1. Hewitt De Alcantara, Cytnhia (1993) 'Real Markets: Social and Political Issues of Food Policy Reform' (specifically pages 44-54 that details relationships).
2. Rahman, Taifur (2007) 'Real Markets' in Rural Bangladesh: Institutions, Market Interactions and the Reproduction of Inequality <http://www.cuts-citee.org/pdf/IPPGBP07-DI-3.pdf>
3. 'Cabbage (*Brassica Oleracea*) And Cauliflower (*Brassica Oleracea*) Marketing In Selected Areas Of Bangladesh', Bangladesh J. Agril. Res. 39(1): 127-141, March 2014
4. Matin, et al., "Mango Marketing System in Selected Areas of Bangladesh" Bangladesh J. Agril. Res. 33(3) : 427-438, September 2008
5. Kazi Maziruddin "Agricultural Marketing In Bangladesh: A Consultant's Report" Feb. 1990
6. Batt, Peter "Trust building behaviour within the Balinese fresh produce industry" Published at the 18th IMP-conference in Perth, Australia in 2002

[Note: There is little information directly on point. Accordingly, some of the above examples reference locations (e.g. West Bengal and Bali, Indonesia) or value chains (e.g. rice or fish outside of AVC's scope), however the parties involved and patterns of behavior described bear similar hallmarks of those within AVC's purview.]

### Legal Landscape and ADR in Bangladesh

The following excerpt from September 2009 issues of Journal of Business Venturing article titled "Entrepreneurship in and around Institutional Voids: A Case Study from Bangladesh" provides a brief but comprehensive, multi-sourced description of Bangladesh's legal landscape:

The formal legal system of Bangladesh is perceived as highly corrupt (North, 1986; Transparency International of Bangladesh, 2005) and extremely slow. The majority of poor people cannot rely on the formal system because they cannot afford to pay bribes nor wait eternally for dispute settlements. As a result, it is biased toward the affluent and the politically powerful. The weakness of the state legal system explains why in rural areas informal means of resolving disputes are preferred. The informal legal system –called shalish, which means mediation– is generally favoured for its lower cost, speed, accessibility, cultural relevance, and responsiveness to poor people's concerns (Alim & Rafi, 2003). However, the traditional shalish is dominated by the male elite and also presents high levels of corruption (Siddiqui, 2000). Hence, the formal law enforcement machinery and the informal mediation system are equally useless to protect the weak. In fact, both are used to perpetuate relationships of dominance.

Alternative Dispute Resolution (ADR) refers to the various approaches of settling disputes outside of the formal legal system. ADR may include negotiation, neutral evaluation, conciliation, mediation, and arbitration. ADR is often more efficient in terms of time and costs and some forms of ADR (e.g. mediation) put the disputing parties in control of the process with the help and guidance of a third-party neutral.

ADR is becoming more institutionalized in Bangladesh, however, in its current phase its promulgated more as tool to achieve greater social equity by giving a voice and recourse to the most vulnerable populations, than as commercial framework to guide firms and individuals toward mutually agreed outcomes or win-win resolutions. Accordingly, to date most rural oriented ADR services in Bangladesh target vulnerable populations such as women, itinerant laborers, prostitutes, child workers, and the poorest of the poor – rather than small to medium enterprises disputing over produce quality, loan terms, or pricing issues.

Below are some of the organizations and/ projects directly or peripherally involved with institutionalizing various forms ADR in Bangladesh.

Organizations & Projects in Bangladesh Involved in ADR / Mediation:

- Bangladesh International Arbitration Center <http://biac.org.bd/>
- Madaripur Legal Aid Association (MLAA) using “Madaripur Model of Mediation (MMM)” <http://mlaabd.org/training-capacity-building/>
- Coast Trust (serving the coastal regions of the ZOI) <http://coastbd.net/where-we-work/>
- Community Legal Services (CLS) DFID Funded and implemented by Maxwell Stamp and the Centre for Effective Dispute Resolution (CEDR) <http://www.communitylegalservice.org/community.php>
- Ain O Shalish Kendra (ASK), Center for Law and Mediation. This is a human rights and legal aid organization established in 1986 and has consultative status with UNESCO. <http://www.askbd.org/ask/mediation-rapid-response/>
- Bangladesh Legal Aid Service Trust (BLAST) <http://www.blast.org.bd/>
- BRAC, through its HRLS program (starting in 1998), worked w/ organizations (e.g. AinO Salish Kendra (ASK); Banchte Sheka; et al.) to provide ADR and legal aid services predominantly geared towards women, the poorest of the poor and the most vulnerable.

**Literature on ADR and ADR in Bangladesh**

1. Akther, Sharmin(2013) Evolution of the process of ADR in Bangladesh. [https://www.academia.edu/5058126/\\_Evolution\\_of\\_the\\_process\\_of\\_ADR\\_in\\_Bangladesh\\_Whether\\_arbitration\\_and\\_mediation\\_is\\_appropriate\\_procedure\\_to\\_solve\\_disput](https://www.academia.edu/5058126/_Evolution_of_the_process_of_ADR_in_Bangladesh_Whether_arbitration_and_mediation_is_appropriate_procedure_to_solve_disput)
2. Bashir Ahmed and Mohammad Tarikul Islam “*The Role of Union Parishad in Rural Dispute Resolution in Bangladesh: an Evaluation in the Light of People’s Perception*”, Studies on Asia, Series IV, Volume 3, No. 1, March 2013
3. Brown, Scott et al., Alternative Dispute Resolution Practitioners Guide: Conflict Management Group <https://www.usaid.gov/sites/default/files/documents/1868/200sbe.pdf>

**Legal Aid Organizations In Barisal**

No.],	Name of the Organization	Working District	Contact Number	Contact Number
1.	Blast Bangladesh Legal Aid Services	Barisal	Office-01712617647	NGO
2.	Bangladesh National Women Lawyers Association	Barisal, <u>Barguna</u> , <u>Jalokathi</u> , <u>Pathukali</u> , <u>Bhola</u> , <u>Pirojpur</u>	Ad <u>Monira Begum</u> -01731927046 Office-01711-800408	Private Association
3.	<u>Madari Pur</u> Legal Aid Association	Barisal, <u>Jalokathi</u> ,	Office-01712293481	NGO
4.	(Citizen Initiative)	Barisal, <u>Jalokathi</u> , <u>Pirojpur</u>	Ad Shamim-01719462748	NGO
5.	Victim Support Center	Barisal,	Office-01717528544	Govt. Organization
6.	District Legal Aid Office	Barisal, <u>Barguna</u> , <u>Jalokathi</u> , <u>Pathukali</u> , <u>Bhola</u> , <u>Pirojpur</u>	Office-01739303222	Govt. Organization
7.	BRAC Human Program	Barisal, <u>Barguna</u> , <u>Jalokathi</u> , <u>Pathukali</u> , <u>Bhola</u> , <u>Pirojpur</u>	Office-01719629636	NGO
8.	Coast Trust	<u>Bhola</u> , <u>Patuakhali</u>	01711529792	NGO
9.	One Stop Circes Center	Barisal, <u>Barguna</u> , <u>Jalokathi</u> , <u>Pathukali</u> , <u>Bhola</u> , <u>Pirojpur</u>	Office-01713366638	Govt. Organization

## ANNEX B: LIST OF INTERVIEWS

Location: Jessore office

Date: 11.01.2016

Role: Arotdars

VC: Mango

Names: 1. Kalimuddin (Adarsha Foundation)  
2. Ataur Rahman (Cheshta Agro)

---

Location: Jitarpur, Ajompur, Moheshpur, Jhinaidah

Date: 11.01.2016

Role: Farmers

VC: Mango

Names: 1. Abdus Samad  
2. Mohsin Ali  
3. Abul Kashem  
4. Mizanur Rahman  
5. Noyon

---

Location: Dulalpur, Hakimpur, Chowgacha, Jessore

Date: 11.01.2016

Role: Farmers

VC: Mango

Names: 1. Sohrab Hossain  
2. Torikul Islam  
3. Khairul Islam  
4. Mamunur Rahman

---

Location: In vehicle en route to Khulna

Date: 12.01.2016

Role: Large Scale Aggregator/Supplier (Contract Farmer model)

VC: Mung bean

Names: 1. Anowar Hossain (01711668026)

---

Location: Khulna Wholesale Market

Date: 12.01.2015

Role: Arotdar / businessman

VC: Vegetable (and shrimp, fish, among others)

Names: 1. Kazi Mukto (01715268606)

---

Location: Borodanga, Ghutudia, Dumuria, Khulna

Date: 12.01.2015

Role: Farmers

VC: Vegetable

Names: 1. Joyprokash Biswas  
2. Porimol Biswas  
3. Md. Ali  
4. Noyon Biswas  
5. Mrinmoy Gain  
6. Bikash Gain

---

Location: Uzirpur, Narail

Date: 13.01.2016

Role: Farmers

VC: Mango / Pulse

Names: 1. Shonjoy Biswas (Pulse / Veg)  
2. Bijon Vowmik (Pulse)  
3. Asad Sheikh (Pulse)  
4. Bishonko Bagchi (Pulse)  
5. Md Ilias Sheikh (Mango)  
6. Komolesh Bagchi (Mango)  
7. Bishyajit (Mango)

8. Kritto Dhali (Pulse)
9. Selim Mia (Mango)
10. Riajul Islam (Pulse)

---

Location: Uzirpur, Narail

Date: 13.01.2016

Role: Arotdar

VC: Veg / Mango

Names: 1. Md. Channu

---

Location: Godkhali, Jessore

Date: 14.01.2016

Role: Trader

VC: Flower

Names: 1. Rafiqul Islam  
2. Md. Najrul Islam

---

Location: Godkhali, Jessore

Date: 14.01.2016

Role: Chairman of Godkhali Fulchashi and Fulbabosayee Kallyan Samity-GFFKS

VC: Flowers

Name: Abdur Rahim

---

Location: Godkhali, Jessore

Date: 14.01.2016

Role: Farmers

VC: Flower

Names: 1. Abu Taher  
2. Alamgir  
3. Md Iqbal Hossain  
4. Lelin Sardar

---

Location : Golachipa Bazar, Barguna

Date : 03/02/2016

Role : Farmers

VC: Vegetable

Names: 1. Md. Nasir Uddin 01735909483  
2. Md. Liakat 01718001064  
3. Md. Nurun Islam 01719633787  
4. Md. Babul Shikdar 01825057336  
5. Md. Harun Shikdar  
6. Md. Helal Miah

---

\* Interview conducted by AVC staff, without Consultant, Larry Tweed.

---

Location : Golachipa Bazar, Barguna

Date : 03/02/2016

Role : Arotdar

VC: Mung Bean

Name: 1. Mosharref Sikdar – 01703093380

\* Interview conducted by AVC staff, without Consultant, Larry Tweed.

---

Location: Charfassion Sadar (ACUS office)

Date: 22/02/2016

Role: Farias

VC: Vegetable

Names: 1. Fakhru Islam Nawab Ali (01781958446)  
2. Abul Kalam Munshi (01724769391)

---

Location: Charfassion, Bhola

Date: 22/02/2016

Role: SAAO, DAE

Name: 1. Monotosh Sikder, UAO (01714523309)

---

Location: Charfassion, Bhola (ACUS office)

Date: 23/02/2016

Role: Arotdar

VC: Vegetables

Name: 1. Johurul Islam (01716270359)

---

Location: Charfassion, Bhola (ACUS office)  
Date: 23/02/2016  
Role: Village Court Officer (Local Commissioner), Aminabad Union Parishad  
VC: N/A  
Name: 1. Akter Hussein (01718743108)

---

Location: Charfassion, Bhola (ACUS office)  
Date: 23/02/2016  
Role: Lead Farmer (Utar Madras, Jinagur Union)  
VC: Vegetables  
Name: 1. Abul Kalam (01729675473)

---

Location: Barguna Office of Social Advance Community Organization (SACO)  
Date: 24/02/2016  
Role: Executive Director (SACO),  
VC: Vegetable / Mung Beans  
Name: 1. Kazi Soeb Fakrul

---

Location: Hazar Bigha, Burir Char, Borguna Sadar  
Date: 24/02/2016  
Role: Farmers  
VC: Vegetable and Mung bean  
Names: 1. Shahjahan Howlader  
2. Abdul Mannan Howlader (01923054654)  
3. Mohammad Konu Mollik (01756290529)  
4. Mohammad Nijam Mollik (01746449483)  
5. Mohammad Awal Hossain (0173573314)  
6. Mohammad Jashim Uddin (01754515173)

---

Location: Barguna Sadar  
Date: 24/02/2016  
Role: Arotdar  
VC: Mung bean  
Names: 1. Md. Golam Kabir (01713958497)  
2. Md. Nurul Islam (01812900193)

---

Location: Barisal  
Date: 25/02/2016  
Role: Arotdar (1 of 65 in Barisal Market)  
VC: Vegetables  
Name: 1. Ganash Chandro Datta (Mobile: 01711447054)

---

Location: Barisal, AVC office  
Date: 25/02/2016  
Role: SAAO, DAE (Ujirpur and Union Gutia)  
Name: 1. Md. Shirajul Haque (01714523309)

---

Location: Karwan Bazar, Dhaka  
Date: 16/03/2016 (2am – 6am)  
Role: Arotdars & bepari/paikers  
Names: ad hoc conversations w/ multiple market arotdars, beparis/paikers