

# Potato Traders in West Bengal

## A Survey of Contractual Relations and Market Structure



### In brief

- The FDI Retail Bill will affect the ability of multi-brand retailers to operate in India and contract directly with farmers. Critics argue this will have adverse effects on traditional middlemen by disrupting the supply network.
- This study seeks to understand the nature of contractual relations between farmers and phorias (middlemen) and between phorias and wholesale traders through a pilot survey of a random sub-set of phorias and larger traders in West Medinipur and Hugli.
- Preliminary policy implications:
  - There are huge imperfections in the current system.
  - This gap does not arise from monopsonization or concentration of middlemen.
  - The imperfections arise to a considerable extent from the fact that potato farmers in West Bengal are unable to sell directly to wholesalers or retailers, and entry barriers into middleman business owing to capital and network requirements.
  - These imperfections could be positively affected by FDI in multi-brand retail, mandi reforms, or alternative schemes of price insurance offered to farmers.
- Policymakers need to consider the effects of increasing competition for traders on farmers, the source of agricultural production who are poorer and more numerous than traders.
- These results are based on a small sample pilot study, and hence, a larger study is needed to ensure that the results are robust.

*“Eventually the hope is that we will obtain a richer understanding of the organization of these bottom-most layers of the supply chain “*

Our study consists of a pilot survey of a random sub-set of phorias (middlemen) and larger traders who operate in 72 villages of West Medinipur and Hugli districts and their corresponding potato markets. Our goal is to understand the nature of contractual relations between farmers and phorias on the one hand, and between phorias and wholesale traders that they sell to on the other hand. The surveys will enable us to obtain systematic information on market structure, trader costs and profits, entry barriers, contractual relations across successive layers of the supply chain, and the nature of competition at each layer. Eventually the hope is that we will obtain a richer understanding of the organization of these bottom-most layers of the supply chain, that will both explain the magnitude of observed margins and pass-through of external price shocks to farmer earnings, as well as enable us to predict the effect of various policies intended to enhance efficiency of the supply network and pass-through to farmers.

## Policy Motivation

The FDI Retail Bill recently introduced in Parliament will affect ability of multi-brand retailers such as Wal-Mart to operate in India and contract directly with farmers. Critics argue this will have adverse impacts on traditional middlemen thereby disrupting the supply network. Evaluating the likely impact requires an understanding of the current supply chain. Additionally there is a great deal of policy interest in attempting to improve agricultural marketing systems within India such as Agricultural Product Marketing Commissions (APMCs), mandi management and this could have a major impact on agricultural growth, poverty reduction and food grain inflation. However for informed policy we need a proper understanding of the current supply chain.

## Policy Impact

This project will help inform policy debates concerning reforms of agricultural marketing institutions in India. These policy issues include allowing foreign direct investment in multi-brand retail (on which a bill was recently introduced in the national Parliament), reform of state agricultural marketing institutions (e.g. whether the state of West Bengal should introduce an APMC on par with other states such as Karnataka, Maharashtra or Madhya Pradesh, and necessary reforms of APMCs in these latter states). All of these policy issues require an understanding of how agricultural marketing chains currently operate.

*“To ensure that the results are robust we need to conduct a larger survey “*

That said our report is based on a pilot survey. To ensure that the results are robust we need to conduct a larger survey (which we are in the process of doing) and at this stage it is pre-mature to comment on potential policy impact of our results.

## Audience

Policy makers, regulatory authorities

## Policy Implications

In terms of policy implications, it is indeed premature to draw any precise policy suggestions. But some of our preliminary results may inform policy debates:

*“Possible benefits of increased growth, lower poverty and lower food grain inflation need to be emphasized and weighed against possible losses to traders resulting from increased competition”*

1. There are huge imperfections in the current system, judging from the large gaps between wholesale and farm gate prices, and that lack of any price insurance for farmers.
2. This gap is not arising from monopsonization or excessive concentration of middlemen.
3. The imperfections arise to considerable extent from the fact that potato farmers in West Bengal are unable to sell directly to wholesalers or retailers, and entry barriers into the middleman business owing to capital and network requirements.
4. These could be favorably affected by FDI in multi-brand retail (this would generate more entry of competitors) or mandi reforms (if the West Bengal government created a functioning APMC) or alternative schemes of price insurance offered to farmers.

A more general lesson for policy makers is that they need to consider effects of increasing competition for traders on farmers, the source of agricultural production who are poorer and more numerous than traders. Possible benefits of increased growth, lower poverty and lower food grain inflation need to be emphasized and weighed against possible losses to traders resulting from increased competition.

## Dissemination

In addition to writing academic papers that will be submitted to refereed international journals, we plan to write up a report for the Ideas for India portal for a wider dissemination of our results.

## Implementation

At this stage it is difficult to comment on the implementation of the policy recommendations, but ultimately we hope that this project will contribute to informed policy debate on the role of middlemen in agriculture and the importance of generating greater competition for food procurement.

## About the authors

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