Crisis and Diversification in Punjab Agriculture
Role of State and Agribusiness

The farming crisis in post-green revolution Punjab has assumed serious proportions, manifested in suicides by a large number of farmers. This paper examines the nature and magnitude of crisis in the farm sector in the state and analyses diversification strategies recommended and adopted so far, more specifically contract farming experiments. It concludes by discussing some possible ways to tackle the farm sector crisis in a sustainable manner.

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I Introduction

The green revolution in Indian agriculture has been a subject of intense debate among scholars and policy-makers in terms of its implications for the rural economy and society and for sustainability of the agricultural development process. There is once again a renewed interest in this subject due to the crisis in farming in the green revolution regions of the country in recent years. There have been even suicides by farmers in the green revolution belt of north India, i.e., in the states of Punjab, Haryana and Uttar Pradesh; and in the southern states of Andhra Pradesh, Karnataka and Maharashtra. There is no doubt that the green revolution in Punjab agriculture brought about a significant reduction in rural poverty in terms of both the absolute number and percentage of poor and ultra-poor population in total rural population from the early 1970s. In 1990-91, only 3.45 per cent of the total rural population, which numbered 48.6 lakh was poor, and only 69,000 people, accounting for 0.49 per cent of the rural population, were ultra-poor (those whose monthly per capita expenditure was less than 80 per cent of poverty line expenditure [Shergill and Singh 1995]). But more recent studies and reports show that gains from the green revolution are not being sustained and that the farm sector has been in crisis for some time now [Sidhu 2002, Singh and Singh 2002, Singh 2000a, Iyer and Manick 2000, Chand 1999].

This paper examines the nature and magnitude of crisis in the farm sector in Punjab during the post-green revolution period in Section II, and goes on to analyse various diversification strategies recommended and adopted so far, especially the contract farming practice in Section III. It discusses the new emerging model of contract farming in Section IV, and concludes by outlining some general strategies as a way to tackle the farm sector crisis in a sustainable manner in Section V.

II Dimensions and Magnitude of Crisis

The primary sector (mainly agriculture and livestock) accounts for 41 per cent of the gross state domestic product (GSDP) in Punjab [Singh and Singh 2002]. In 1997-98, foodgrains comprising cereals and pulses accounted for 74.6 per cent of the gross cropped area (GCA) of the state. The only other crop, which accounted for a significant percentage of the GCA, was cotton (9.2 per cent). By the late 1990s, 96 per cent of the gross sown area was irrigated, and 100 per cent of the wheat and 94 per cent of the rice area was under high yielding varieties (HYVs). The state had more than 9 lakh tube wells and about 4 lakh tractors [Rangi and Sidhu 2000]. Further, 87 per cent of the paddy and 52 per cent of the wheat area in the state was being harvested by combine harvesters. More than 80 per cent of paddy straw and about 50 per cent of wheat straw was being burnt by farmers [Sidhu et al 1998]. There is an over-capitalisation in the agricultural sector of the state and capital assets are grossly under-utilised due to the low and decreasing size of farms. For example, in the case of tractors, average annual use is only 400 hours compared with the minimum viable 1,000 hours. Due to this, the fixed cost component in crop cultivation cost has increased, hit the profitability of farm enterprises, especially of small and marginal farmers who over-invested in farm equipment hard [Gandhi 1997]. From the market side, these high costs have led to the wheat and rice production in Punjab becoming either only marginally competitive or non-competitive in the international market [Gill and Brar 1996]. In fact, wheat cultivation in Punjab has become unviable in the mid-1980s itself, when a farmer in MP was able to earn higher net profits by spending less on modern inputs than a farmer in Punjab [Singh 2000a].

Water has been used highly inefficiently in Punjab agriculture. In the mid-1980s, there was wastage of water to the extent of 30 per cent [Bhatia 1987]. In Punjab, the water table is falling by up to one metre per year (www.earth-policy.org). Already 90 per cent of the 138 blocks of the state have been declared ‘black’ as the water table is falling at an alarming rate in these areas [Sidhu 2002]. It is found that 93 per cent of paddy farmers had tube wells and 44 per cent of them had been affected adversely due to the decline in water table. These farmers had to sometimes deepen their tube wells or place in the pump sets at a lower ore in the well itself. This meant an extra cost of Rs 2,000 for deepening the tube well during the early 1990s and Rs 4,000 during the late 1990s, as compared to the 1980s [Singh and Kalra 2002]. The policy of free power supply to tube wells seems to have exacerbated the problem between 1997 and 2002. The zero pricing of canal water was a disincentive to farmers to conserve water. The south-western districts face problems of waterlogging.
and salinity created by excessive use of water and cotton was, thus, replaced by rice. A recent study of 100 farmers of different categories (both diesel pump owners and electric pump owners) in two districts of Punjab (Ludhiana and Bathinda) revealed that for nine months, farmers pay a higher price of electricity because of the flat rate system than they would under a metered system. Farmers of all types were giving as many as 27-30 doses of irrigation to paddy, and five and six to wheat and cotton respectively. But, water productivity in terms of produce per acre per cubic metre of water was lower in Punjab than in UP for both paddy and wheat [Batra and Singh 2003]. Also, the over extension of rice cultivation led to an increase in insect and pest attacks, with 57 per cent farmers reporting this problem [Singh and Kalra 2002].

The other indicator of crisis in the farm sector in the 1990s has been the emergence of second hand tractor markets where farmers sell old and new tractors for funds to meet other requirements. There are more than a dozen daily, weekly, and fortnightly markets for the sale and purchase of second hand as well as new tractors in various market towns in the Malwa (southern Punjab) region and the cotton belt of the state where thousands of farmers participate [Singh 1999b; Rangi and Sidhu 2000]. That a state, which today has more than 3.87 lakh tractors accounting for one-fourth of the total number of tractors in the country, but just 2.5 per cent of cultivated area, is a phenomenon that is disturbing. With only about 11.17 lakh operational holdings in the state, it means that every third holding is equipped with a tractor. Added to this is the fact that more than 70 per cent of farms are below 10 acres each. The growth rates of net state domestic product (NSDP) from agriculture, total NSDP and per capita income during the 1990s in Punjab have been lower than that for the country as a whole [Chand 1999]. The growth rate of NSDP was only 2.72 per cent per annum during this period, compared with 3.42 per cent during the 1980s, which was one of the lowest among Indian states and lower than the national average (4.02 per cent). In fact, SDP from agriculture grew at just 0.37 per cent during the 1990s in Punjab and the whole primary sector growth was accounted for by the livestock sub-sector, which grew at more than 5 per cent per annum during this period. Though the state is next only to Kerala in overall HDI, it ranks seventh in literacy. The development expenditure in the state as proportion of NSDP stagnated in the 1990s [Singh and Singh 2002]. Part of the state’s farm sector problems can be traced to the agro processing sector. A study of primary food processing units (paddy milling and oilseeds milling) in the early 1990s revealed that they were dependent on the local economy neither for labour nor for investible surpluses in a direct way [Singh 1999a]. As regards raw materials, the industry was more a consequence than a cause of the cropping pattern in the state.

Thus, the main problems of the farm sector include declining growth rate of farm production, declining capacity of the agricultural sector to absorb labour because employment elasticity with respect to output in agriculture has come down to 0.2 per cent, monoculture of wheat and paddy which account for more than 76 per cent of GCA of the state and; over capitalisation of the farm sector. But, agriculture is the primary engine of growth without which Punjab will neither be able to accelerate growth nor achieve fiscal sustainability. As is clear from the above discussion, the economic condition of a vast majority of farmers, especially marginal and small, cannot be improved unless there are changes in the cropping pattern and technology of production. Diversification within agriculture is intended to stabilise incomes and employment in the farming sector. This diversification can either be in terms of variety of crops grown or technologies used for the same set of crops.

III Diversification Attempts

It is an irony that what the Johl committee had to recommend as a strategy for diversification in 2002 was what it had recommended 16 years ago (in 1986) for the first time. The diversification strategy suggested by the second Johl committee report is that 10 lakh hectares of rice and wheat cultivation should be replaced with high value crops such as oilseeds and pulses. It proposes a crop adjustment programme to compensate farmers who make the switch. This amount comes to Rs 1,280 crore, which is less than the cost incurred on procuring and storing 80 lakh tonnes of rice and wheat, i.e., Rs 7,000 crore for procurement and Rs 2,000 crore for handling storage and transport, including wastage losses. In fact, about three-fourths of paddy farmers reported no preference or willingness to reduce area under paddy by even 10 per cent. Only 12, 7 and 5 per cent each of paddy farmers thought of cotton, maize and sugar cane as alternatives [Singh and Kalra 2002]. In this context, some of the diversification attempts are analysed here.

Sunflower, a minor agricultural item in the early 1980s, turned out to be a major oilseed crop of the state by the early 1990s, it accounted for more than 50 per cent of the area sown with oilseeds and more than 60 per cent of total oilseed production of the state. But, soon the importance of sunflower declined due to lower returns as compared to wheat, lack of quality seeds, high water requirements, weather sensitivity and the adverse effects on crops of the next season [Singh et al 1997]. Similarly, floriculture suffered from high risk of production, lack of weed control, high incidence of insects and pests, non-availability of good quality plantation material and problems of seed collection [Garg and Sharma 1999]. It was also recognised quite early that it is important to move farmers with investible surpluses from agriculture to the industrial sector but, that was never attempted [Gill 1988]. On the other hand, private agribusiness firms were thought to be harbingers of change since the late 1980s. The economic logic behind the promotion of processing and marketing activities was that to bring dynamism to the agricultural sector, either the cost of cultivation had to be lowered, by raising productivity or cutting costs directly, or returns to the producers had to be raised by value addition or diversification. Contract farming arrangements between growers and private processing interests were to achieve both these objectives by providing the former will better seeds, inputs and improved markets and prices. Contract farming can be defined as a system for the production and supply of agricultural produce by growers under advance contracts. The essence of such contracts is the commitment to provide an agricultural commodity of a type, at a time and a price, and in the quantity required by a known buyer (agribusiness firm). It basically involves four things: pre-agreed price, quality, quantity or acreage (minimum/maximum) and time (Figure 1) [Singh 2000a].

**Pepsi-led Contract Farming System**

The Pepsi project, approved in 1988 by the government of India, was to initiate a second agricultural revolution in Punjab where the first green revolution had reached a plateau in terms
Nijjer Agro Foods’ tomato cultivation. This became more rooted with the entry of Pepsi Foods – subsidiary – of Multi-National cost of production. Most farm operations led to increased productivity and reduced new seed varieties. The new seed variety and mechanisation of technology of deep chiselling, and new methods of transplantation made good money. The company (Pepsi) introduced the tech-the company in tomato procurement and processing, growers the company’s efforts. In fact, despite the huge losses made by three years of operation, the Pepsi project was able to raise the practice never got any policy or research attention. Within three years of operation, the Pepsi project was able to raise the yields of tomatoes from a mere 7.5 tonnes to 20 tonnes per acre. It also attempted successfully the winter cultivation of tomato for the first time in Punjab, with the help of green house tech-nology dissemination at the farmers’ level. Further, the harvesting season for tomatoes was extended from 25 to 70 days due to the company’s efforts. In fact, despite the huge losses made by the company in tomato procurement and processing, growers made good money. The company (Pepsi) introduced the technol-ogy of deep chiselling, and new methods of transplantation like shovel technique and bed head planting, besides introducing new seed varieties. The new seed variety and mechanisation of most farm operations led to increased productivity and reduced cost of production. Contract farming in Punjab was in place by the early 1990s with the entry of Pepsi Foods – subsidiary – of Multi-National Pepsico – into production of tomato and chillies, and local firm, Nijjer Agro Foods’ tomato cultivation. This became more rooted with Pepsi selling off its tomato facility to Hindustan Lever (HLL) – subsidiary of multinational Unilever, which processes one-tenth of the world’s tomato produce and is the largest food processing and marketing company in India – in 1995, and Pepsi’s entry into potato contracting by the late 1990s. The HLL plant in Punjab (set up by Pepsi) was the biggest tomato paste plant in Asia, with a capacity to process 650 tonnes of tomatoes a day. HLL worked with about 400 contract growers during the late 1990s. Pepsi which had been working with hundreds of tomato and chilly farmers until 1997, later worked with only about a few dozen in chillies and potatoes each. Its potato contracts accounted for only about 10 per cent of its total procurement. Nijjer Agro Foods’ tomato paste plant capacity is half that of HLL plant’s and the company worked with about 400 contract tomato farmers in the late 1990s [Singh 2002].

Other Side of the Contract Farming Project

The Pepsi project had already disillusioned a large number of stakeholders like the Akali Dal, PAIC, Voltas, and the Bhartiya Kissan Union (BKU). It was also argued that the soft drink component of the project was to lead to the setting up of seven bottling plants in Punjab, but only one such plant has been set up in the state. Therefore, even the more influential locals could not benefit in business terms [Gill and Gill 1990]. How can a soft drink company ignore the considerations of the market which dictate the location of such plants? A perusal of the contract agreement suggested that there was hardly any incentive for growers to stay with the company as they bore the entire risk while it was the companies that had the insurance against them. Other than the supply of seedlings and the procurement of only a specified quantity of a certain quality of produce at a pre-fixed time and price, the company’s contract offered nothing to the growers. While the contract gave the company right of refusal to pick up contracted produce, growers were liable to be penalised if they defaulted from their commitment. And in case the company did not buy their produce even if it met all specifications, they were to agree to sell it in the open market. Could a contract that was loaded against the growers promote partnership between them and the company and serve the very purpose of the project? The company also started subcontracting out its procurement to large growers in each area who procured from small growers on behalf of the company. Does this fit into the modern agribusiness culture? How could this type of arrangement benefit those growers who really needed to be integrated into modern processing systems? The growers defaulted from contract supply to the company and sold their produce in the open market due to the higher prices they could obtain there. But, it was not that only farmers defaulted. Even companies were not able to procure produce from the farmers many times, especially when they had over-contracted acreage and yields were good. Then, either they did not give quota slips in time for the entire produce or became strict on quality [Singh 2002].

The companies (HLL, Pepsi and Nijjer) preferred large growers for contract production, perhaps to avoid problems of dealing with too many small growers, which has been the practice of all agribusiness corporations, as evident from earlier studies [Glover and Kusterer 1990]. In fact, more than one-third of Pepsi’s contract growers had as much as or more than 10 acres of their land each under tomato cultivation. However, given the nature of these growers, they were the more frequent defaulters
to the company as they could afford to be so. This led the company’s tomato project into trouble, which led it to sell off its tomato processing plant at Zahura in Hoshiarpur to HLL in 1995, as mentioned earlier. The average size of the operational holding of MNC (Pepsi and HLL) growers was 72 acres, of local firm growers 22 acres, with the average for all growers being 61 acres. Even under Pepsi ownership earlier, most of the tomato contract growers were medium or large farmers. There was no MNC grower with less than 15 acres of operational land holding, which is much above the average size of the operational holding in the state (8.9 acres) [Singh 2002]. Another study of contract farming of two tomato processing firms (HLL and Nijjer) in the state also found that 96 per cent of the growers owned tractors, with some having more than one tractor, and 82 per cent had tubewells for irrigation [Rangi and Sidhu 2000a]. These farmers have been major beneficiaries of the green revolution in Punjab in the 1970s or have foreign remittances from family members based abroad. Even the average acreage under contract for MNC (14.3 acres) and for all contract growers (12.33 acres) was much above the average operational holding in the state. In fact, there have been growers (under Pepsi) who cultivated only tomato on their entire land (as much as 45 hectares) in 1995 and chillies on about 13 hectares in 1996 [Singh 2002].

The HLL contract growers did not appreciate the company selling seedlings to non-contract farmers when it had a surplus because of the commercial consideration of additional seedling production. But, perhaps, the company wanted to create a larger base for procurement and contracts in the longer term and a market surplus to keep down prices. Farmers were generally happy with contracting, though they did face some day-to-day problems, which had implications for their incomes and livelihoods. Growers found the multinational company better to deal with than the local one, as far as farmer treatment was concerned as many of them had contracted with more than one company each. The Pepsi farmers found the potato seed supplied by the company generally less than adequate for the acreage to be sown under contract and pesticides recommended by the company as poor and costly. Two-thirds of HLL farmers, three-fourths of Nijjer growers and about half of Pepsi potato growers reported lower yields as a result of crop failure, with another 12 per cent of HLL and 7 per cent of Nijjer growers reporting total crop failure. Some Pepsi growers also reported poor quality of produce. The farmers reported problems like poor coordination of activities, interior technical assistance, delayed payments, outright cheating in dealings, and manipulation of norms by the firms. Contract production of tomato brought a big employment boom in these areas as the mechanisation of sowing and harvesting operations of paddy and wheat crops had reduced manual work to a negligible level. That contracting has led to more and better employment opportunities for labour, especially women, was acknowledged by the labourers [Singh 2002].

The area under the contract crop (tomato) increased in pockets of the region where the practice of contract farming existed. Each pocket had a few hundred acres under tomato, which, in some areas, was not grown at all earlier. In all, the area under tomato in Punjab in 1999 was reported to be 15,000 acres and total production of the crop was 93,000 tonnes, which increased to be 2.5 lakh tonnes in 2001. But, at the same time, no increase in the area under horticultural crops was evident, as the production increase under contracting had come largely from the yield factor and not from expansion of area. In fact, the area under fruit and vegetable crops in the state still remained less than 2 per cent. Also, there might have been an area shift within fruit and vegetable crops due to contracting. There might have been only a marginal shift from paddy, wheat and cotton to tomato partly because of the better economics of a tomato crop under contract, explained to prospective contract growers by company officials, and partly because of the constant failure of cotton in some of these regions in the past few years [Singh 2002].

Though many studies recommend contract farming to promote Punjab agriculture [Rangi and Sidhu 2000a; Sidhu 2002], it is likely to solve the state’s farming crisis only partly and in the short-term, as it is leading to higher incomes but also high chemical input intensity and water use [Singh 2002]. These be at the root of the sustainability crisis in the state’s farming sector. Of the four firms operating in the state, two are multinational subsidiaries and, are therefore, globally oriented in their operations. Both are expanding their operations in the food sector as part of their global strategies, and therefore are likely to stay in this business but may not restrict themselves to Punjab alone, as is already evident in HLL’s move into Haryana and Rajasthan for its procurement. Also, Pepsi Foods’ limited procurement of potato (10 per cent of total requirement) from contract growers leaves much to be desired. But the HLL tomato processing plant in Punjab has been shut down for the last one year. Similarly, Pepsi has given up tomato, chillies and even potato contract farming by and large and moved into basmati rice, groundnut and garlic contract farming since 1998 [Prabhu 2004]. It has acquired a paddy processing plant in Haryana which only means perpetuation of paddy cultivation in the region (Punjab and Haryana), though the MNC was granted entry into Punjab to prevent precisely this. On the other hand, locally oriented firms (Nijjer and Markfed) are small in their operations and find it difficult to grow on their own. Nijjer has already become a sub-contractor to Nestle so far as contract production of tomato and processing of tomato into paste is concerned. The firm procures from farmers, processes the tomatoes into paste and supplies the same in bulk to Nestle. Thus, it is operating as an intermediary between farmers and the MNC. By doing so, it not only avoids the risk of farm production by contracting but also market risk by selling in bulk to Nestle. Thus, practically, it is operating as a subsidiary of a MNC and, therefore, all benefits for the local economy are being reduced to that extent. The cooperative firm (Markfed) is tradition bound, non-aggressive and only a procurement agency. It has not really shown any major dynamism in the field of processing and marketing for the last three decades. The contracts of all the firms were anti-farmer, short-term, and costly and perpetuated the existing problems of the farm sector like high chemical input intensity and social differentiation, although contracting led to higher farm incomes and more employment for labour, these were not likely to sustain due to various reasons that are inherent in the nature of the contract system itself. There seemed to be an inherent contradiction in the objectives of the contracting parties and that of the local economy [Singh 2002].

**State and Contract Farming**

The contract-farming programme launched by the Punjab government in October 2002 (for the rabi season) was aimed at reducing 10 lakh hectares under wheat-paddy rotation over the next five years. In 2002-03, a total of 29,000 acres was covered
under the programme, of which 20,000 acres was brought under hybrid rapeseed mustard (hyola), 7,000 acres under maize, 1,000 under barley and another 1,000 under various vegetables. The programme was being implemented jointly by the Department of Agriculture, Punjab Agro Foodgrains Corporation (PAFC, subsidiary of PAIC) and private companies. The PAFC not only provided seeds purchased from reputed companies like Adventa India and Pro-Agro, and extension to contract growers, also promised to buy back the entire produce at pre-agreed prices through a tripartite agreement involving PAFC, the seed company through its dealer, and the farmer (Figure 2).

The tripartite agreement specified the fixed price and bonus to be paid by PAFC to the farmer for the produce (bonus was applicable only if the PAFC was able to sell the produce at a higher price), type and quantity of seed to be supplied by the seed company at a particular price for given acreage, farmer’s responsibility of delivering the quality produce (produced by making use of recommended inputs bought from outlets prescribed by PAFC) at a specific place, payment by PAFC within two days after delivery and; PAFC being the sole authorities in deciding weight of the produce and the only arbitrator in case the contract terms were dishonoured by any of the parties. The contract was signed by all three parties in the presence of two witnesses for the farmer.

But, by the harvesting season for the contracted crops, the programme had run into rough weather. The contracted winter maize crop completely failed due to inclement weather. The contract green peas growers were forced to dump their produce in the open market after being rejected by PAIC on quality grounds, as per the contract specification because it developed fungus due to inclement weather, marked by heavy rains in the winter season and then a sudden rise in temperature. An area of 500 acres under contract production of green peas in Patiala and Fatehgarh Sahib districts was affected. Some farmers found fault with the fungicide supplied by the contracted company. The dumping of contract produced crop in the open market led to a fall in local market prices and was sold at Rs 3 per kg as against a promised price of Rs 5 per kg by the PAFC [Singh 2003]. The programme could not achieve its stated area goal in most crops and regions. Not only did it fall short in terms of actual contracted area being less than that stated by the agency, farmers did not plant contract crops in the entire contracted area. The gap was much larger in the latter case and even as high as 50 per cent in winter maize in Ludhiana and 20 per cent in hyola. The seed companies only provided seed and no other extension service. Finally, none of the companies procured the produce. Instead, they advised the farmers to sell in the open market either because open market prices were higher than the contract price or the quality was not as desired. Except the oilseed crops (hyola and sunflower), net returns from contract produce was found to be lower than what farmers would have got from wheat. Most of the problems farmers faced related to production and quality (of seed and extension) and not marketing of produce (except peas) as the open market could take care of contract produce. Due to this experience, a large majority (60 per cent) were not willing to enter into contract farming arrangements again [Singh et al 2003].

Though contract farming has existed in Punjab for more than a decade now, this was the first time that the state government became the intermediary between companies and farmers. It was part of a larger project on crop adjustment (diversification) to be implemented during 2002-07. It was rather surprising that the state undertook contract farming as a party in the agreement with the growers. Nowhere in the world has the state undertaken this kind of effort for diversification. Long term and sustainable alternatives of cooperatives or self-help groups signing contracts with agribusiness companies were given a go by. More recently, the state has withdrawn to the role of facilitator of contract farming.

IV

New Face of Contract Farming

More recently, several agribusiness companies have made forays into farm services, which is being seen as private sector participation in agricultural development. One such model is that of Mahindra ShubhLabh Services (MSSL), which has an agreement with the government of Punjab to facilitate contract farming for diversification. The company offers extension services to farmers for a fee but ensures a certain level of yield. If farmers get lower than the assured level of yield, they need not pay the fee. The company’s experiment in Madurai, Tamil Nadu, where farmers had to pay Rs 500 per acre, achieved assured yields in 75 per cent of cases in the first year, which increased to 80 per cent in the second season despite drought conditions [Naik 2002]. In Punjab, the company provides farmers quality seeds, fertilisers, pesticides, farm equipment and extension services to raise yields. It also plays a facilitating role to link farmers with processors and banks for market and credit respectively (Figure 3). The MSSL plays the role of an integrated farming solutions provider and is leveraging its present network for better performance.

This is similar to what has been already implemented by Rallis India in MP, Maharashtra, Karnataka and Haryana. The company provides all inputs, technical support and finance to registered growers for a specific crop and facilitates the sale of produce at reasonable prices. The company follows a consortium approach. It has tied up with banks like ICICI and SBI and with buyers of produce like HLL, Picric and Cargill. The system is run through a network of 10 Rallis Kissan Kendras (RKKs) across the country. For example, in Panipat, the RKK sells inputs like seeds and fertilisers, ICICI extends credit to member farmers and Picric picks up the basmati for retailing in the UK. The farmers are enrolled with RKK and can avail of loans up to Rs 6,500 per acre (cost of basmati cultivation in Panipat) for a six-month period at 13 per cent rate of interest. In addition, every member
farmer has accident insurance coverage of Rs 1 lakh. The RKK has trained farmers to harvest basmati when moisture levels are at 16 per cent, as harvesting at lower levels can lead to more broken basmati grains during milling. The farmers are paid prevailing market prices. Rallis and ICICI deduct the cost of inputs and loan amount from the proceeds before paying the farmer on the spot [Karunakaran 2002]. In Hoshangabad district of Madhya Pradesh, Rallis operates in wheat. It started with a 1,000 acre project, which grew to a 5,000 acre one in 2002. Encouraged by this, the company has set up new projects in fruits at Bangalore, vegetables at Nasik and basmati rice at Panipat. ICICI collaborated with the company as they benefited from the rural penetration of Rallis, and HLL gained as it could get good quality wheat for processing it into wheat flour [Subramaniam 2002].

These are the new ‘banias’ with knowledge, resources and strategies for growth through partnership; they will make money while also helping others (farmers, banks and processors) to do so. Their strategies involve bundling of inputs and linking up of credit with input supply, which is the agribusiness of the 21st century. It is interlocking of factor markets coming back in another form. But, what is wrong if it can provide what state and cooperatives have not been able to for so long, i.e., timely and cost effective supply of quality inputs, finance and even tractors and combine harvesters, etc., on hire basis? These agribusiness services focus on more efficient use of modern inputs with a two pronged strategy, i.e., yield increase or cost cutting through inputs and value addition through market improvement. This is a must for competitiveness, whether domestic or international. However, it remains to be seen how far the service companies will continue with these arrangements as they seem to be a marriage of convenience between banks, input companies and processors/marketers, all of whom look at contract farming as a way to overcome their market difficulties. They are able to share their risk of working with the farmer, but the farmer’s risk is not being shared by any other agency or organisation.

V Conclusions

One of the major issues in Punjab’s agribusiness is how to create outlets for investible surpluses available with relatively rich farmers who have already tried their hand at transport and primary agro-processing. Both these sectors are now saturated. Therefore, the best option is to make farmers partners in agribusiness projects initiated by the state and MNCs. PepsiCo, Punjab Agro, and Voltas failed at this but, they did not attempt to involve farmers and local capital at all. Pepsi could not even retain modern farmers in its procurement operations as the contracts, as pointed out earlier, treated farmers only as supplier parties. Pepsi only chose to work with farmers under a contract because that made the best sense in agribusiness today. By contracting raw material production, the company avoided large fixed costs and hassles of getting into primary production. Farmers are unable to directly participate in agribusiness due to the lack of required expertise and attitude for this activity and absence of participative links with trading and business networks. It is here that the cooperative form of organisation can play some role. Therefore, what is required is not so much multinational corporations but a variety of enterprises, which can ensure the participation of farmers in agro-industrial development as equal and active partners. Further, since the present system of cooperatives in the state does not work efficiently to cater to the business needs of such farmers, the new generation cooperatives (NGCs) can be given a try. This can also help mobilise some of the capital surpluses available with these farmers for the cooperative structure, as processing and marketing are high tech and high cost activities. An NGC has restricted or limited membership, links product delivery rights to producer member equity, raises capital through tradable equity shares among membership, enforces contractual delivery of produce by members, distributes returns based on patronage, goes for value addition through processing or marketing, and makes use of information efficiently throughout the vertical system. However, it retains the one member-one vote principle for major policy decisions. This kind of restructuring helps cooperatives to tackle problems of free riding by members, of horizon, which is at the root of financial constraint, and of opportunism, both that of members and of the cooperative. This arrangement by cooperatives has helped them become economically efficient, financially viable, and obtain member loyalty wherever it has been tried. Additionally, non-member procurement and quantity or acreage contracts have been also used by cooperatives to tackle supply side problems [Singh 2000b]. Some cooperatives in India have also attempted quality based grading and pooling systems to achieve better business performance [Singh 1997].

It is important to realise that the solutions lie on the institutional plane. Unfortunately, NGOs and other local level community institutions are missing from the state altogether. In fact, this was one of the reasons that farmer suicides in the state could not be prevented. The lack of NGOs in the state for economic as well as social purposes has also been noted by others recently [Sidhu 2002, Iyer and Manick 2000, Singh 2000]. The picture is no different for farmer’s organisations. In fact, there are only state sponsored cooperatives for the distribution of inputs and procurement of produce, many of whom are also in the red financially and not member based. There is also a role for farmer associations in the promotion of organic farming as an alternative. State agencies, farmers’ organisations, and NGOs should intervene in contract farming situations as intermediaries to protect the farmer and broader local community interests. NGOs can also play a role in information provision, and in monitoring and regulating the working of contracts. It is also important to realise that
contracting need not be promoted for all crops, farmers and regions, and the state should play more of a regulatory role rather than a promotional one. Farmers’ organisations should be promoted by governmental and non-governmental developmental agencies to deal effectively with contracting companies. Public or cooperative provision of costly inputs like tractors and combine harvesters should be made so that small and marginal farmers can custom hire these machines. What is a must for creating a way out of the crisis is institutional and organisational innovation in the state’s rural sector.

Agricultural diversification will work only if the current system of procurement based on minimum support price (MSP) is changed in favour of new crops because it provides a powerful economic incentive to prolong the wheat paddy rotation. This has to be further coupled with user charges for power and irrigation and the shift to metre-billing. In fact, diversification should also be more than that crop diversification and include other allied and non-farm activities in rural areas.

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References


