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It's A Sour

Policy barriers need to be broken to make farm aggregation a success in India

by Vishal Krishna

PALAKSHI Reddy, a farmer who owns 25 acres of land in Bangarupalyam in Chittoor district in Andhra Pradesh, has had enough of farming. "Labour is expensive and it is making it difficult to get quality people," he says. "The yield per acre is not enough to sustain my family." Then he confesses to an almost secret desire that is pervasive across the country: "I want to sell the land and live in the city, where my son works as an IT engineer."

Reddy's problem highlights one of the main concerns about the impact of agriculture in India: economists say that when it takes almost 60 per cent of the country's working population to produce a fifth of its gross domestic product, it poses serious questions about the long-term economic growth of the country. Small family farms constitute around 80 per cent of all land holdings. But they contribute only about 42 per cent of grain production and over half of all fruits and vegetables.

The internationalisation of agri-business is a push factor towards better efficiency in both input and output markets. Many agri-activists such as politician Sharad Joshi, while being against corporate farming — where corporations buy, lease and aggregate vast tracts of land to effectively industrialise agriculture — have argued for allowing farmers with small and unviable farms to exit. Agriculture, for a variety of reasons, including limits on size of land holdings — most states in India limit individual land holdings to 12 acres under various land ceiling laws — does not lend itself to large economies of scale, or corporate farming. Although many states have amended their land ceiling acts to allow corporations to lease and aggregate farms, it continues to be a hotly debated topic.

Several firms have attempted to create variants of corporate farming business models that involve several types of farm aggregation — from contact farming through contract farming to corporate farming.

Steve Daniel, senior vice-president for India, Thailand and China at logistics and supply firm DHL, believes that public health will be one of the drivers of farm aggregation. "The basic premise of change begins when the customer begins to ask for quality," he says. This demand for quality should naturally bring farmers together and aggregate to deliver on quality, he adds.

Opportunity Knocking

Many firms have tested agricultural businesses and aggregation, even to a limited extent. There are retailers, such as Reliance Fresh and Spencer's Retail. Other firms include the Reliance Industries subsidiary Jamnagar Farms in Gujarat, Mahindra & Mahindra's Shubhlabh Services in Punjab, the Anil Dhirubhai Ambani Group (ADAG), also in Punjab, and Ion Exchange India in Maharashtra, Goa and Tamil Nadu.

But barriers to agriculture as a business ven-

Harvest, So Far

ture have tested even the most resolute. Although the Agricultural Produce Marketing Commission (APMC) Act, which regulates various *mandis*, was amended in many states in 2008, companies still cannot buy fertile farm land in India. They can, however, either lease land from the farmer or work directly with a set of farmers. They can also buy waste land or lease it at very nominal rates. Only companies working with a business-to-business connection are aggregating farms on a large scale.

Modern retailers, who should be farmers' natural allies, have found it difficult to work directly with them. Given the political sensitivities, changing the whole farm-distribution mechanism (run by mandis) has proved difficult. Besides, the mandis remain more price-competitive. So retailers source from mandis instead of developing their own supply chains.

"The main reason why aggregation does not work is because the consumer in India still wants to touch his fresh produce," says S. Venkatraman, director and head of food and agribusiness research at Rabo India Finance in Mumbai. "Here a corporate entity can add little value, since the end product offered even at a modern retail store caters to touch."

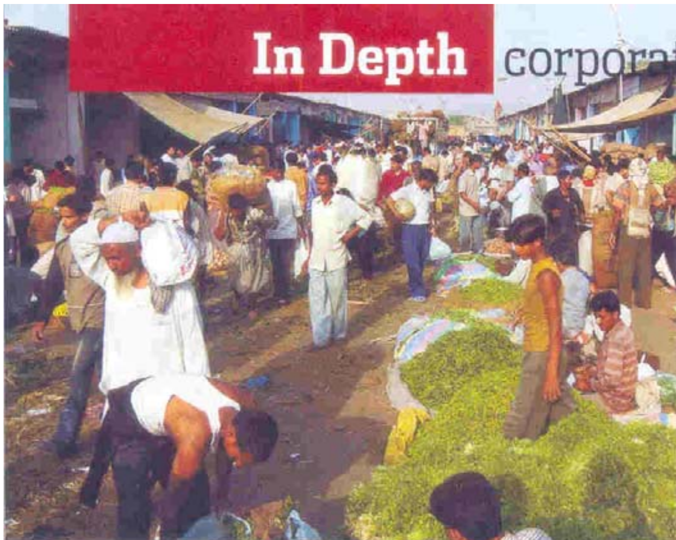
Being Politically Correct

Contact farming is the term adopted by West Bengal to describe its agricultural development policy that includes food-processing industries dominated by companies such as Dabur, Spencer's Retail and Keventer Agro. It involves enabling contacts between farmers associations, cooperatives and food-processing companies looking for assured suppliers of produce by entering into buy-back arrangements. To most, it is just another version of contract farming.

One of the largest aggregators in the country is A.M. Todd India, a global mint oil company. It aggregates mint leaves from about 3,500 farmers, who own 14,000 acres in Punjab and Uttar Pradesh (UP). The company works under specific buy-back agreements with farmers. "We encourage the farmer to grow it as an alternative crop and the programme has met our mint needs from South Asia," says Rajendra Ghogale, managing director (MD) of A.M. Todd in Mumbai.

Farmers apportion a part of their land to grow mint, the inputs are provided by A.M. Todd. Af-

GRAPHIC: NEERAJ TIWARI



DILEEP PRAKASH

TOUGH TO BREAK: Government-regulated mandis are still competitive in terms of price

ter the leaves are harvested and the oil is extracted by a processing plant owned and operated by A.M. Todd, farmers are paid according to the amount and quality of the oil extracted. Since mint is not sold in the mandis, there is no conflict with them, or with APMC. For the farmers, there is little or no additional investment. For A.M. Todd, there is very little capital investment, except for the cost of the processing plant.

Farmers Contract Out

Companies working with a business-to-business connection are aggregating farms on a large scale by contracting production, which is another model that has seen some success. For instance, McCain, an $8-billion global company that specialises in potato products, works with a group of farmers that collectively owns over 1,000 acres in India. "We grow potatoes for quick-service restaurants in the country," says Devendra Kumar, general manager, agriculture, at McCain India in Gujarat. McCain gives farmers seeds that improve yield per hectare. The farmers have benefited since McCain buys the entire produce at higher prices. McCain processes the potatoes in a factory close to the fields, cutting out intermediaries and transport costs.

With an annual consumption of 3,500 tonne, more players are getting into seed potato farming. McCain has invested Rs 125 crore in building a processing facility with an annual capacity of 40,000 tonne and plans to increase it to 300,000 tonne in five years. Even ITC has cashed in. Its research subsidiary Technico Agri Services works in over 5,000 acres of farm land and specialises in growing seed potato.

"Research in potato extension services, where expertise is provided to the farmer from sowing to the aggregation stage, has been around for 30 years and it has helped increase potato production in the country," says Sachid Madan, MD of Technico Agri Services in Delhi. But the same level of expertise is yet to be developed in other vegetables and fruits.

Looking West...

The association between farmers and foreign retail buyers is a tried-and-tested route. Take Jain Irrigation, which derives Rs 300 crore of its revenues from agri business by aggregating 7,000 acres of farmland to grow white onions and mangoes for Cargill, the global seed company.

The fruits and vegetables are processed and shipped to Cargill, which in turn supplies them to retail companies around the world. "We work with 1,500 farmers, and have been working with them from the seed input stage," says Anil Jain, MD of Jain Irrigation.

Aggregation was easy for the Jains given the proximity of farm lands to processing factories that have a capacity of 20,000 tonne per day. But what makes Jain Irrigation's model of contract farming different is that there are no formal signed contracts with the farmers. The arrangement is based on the strong relationship built by the company by selling drip irrigation systems to these farmers.

A similar business model is followed by Vista Foods, a food processing company that supplies to McDonald's. The company works with over 500 farmers in Ooty, Tamil Nadu to source iceberg lettuce. Another little known company Desai Fruit and Vegetable in Gujarat works with over 2,000 farmers aggregating over 5,000 acres of land. Most of the produce it contracts — bananas and mangoes — end up in Europe. The Bharti joint venture with processing firm Delmonte aggregates another 2,000 acres.

But corporate ownership of land is a minuscule part of the farm aggregation story, and an area fraught with politically driven conflict, despite being successful businesses. Take Essar Agro — owned by the Essar Group's Ruia family — which owns about 2,000 acres of land around Pune. It exports fruits and vegetables and provides iceberg lettuce to McDonald's. But this is not so much a business but a hobby, according to a company spokesman. Reliance Industries subsidiary Jamnagar Farms was originally set up as an environmental protection measure near the refinery. Today, it is a profitable venture on its own.

Because contract farming is an issue in the country, Indian companies are acquiring land in other countries, and developing alternative models. KS Oils, an edible oil refiner, has been given 50,000 acres of land by the Indonesian government to refine palm oil and create inclusive growth for 10 villages. "These villagers are

INDUSTRIALISED AGRICULTURE

Many companies — including retail — have invested in the contract farming model to gain efficiency

Company	Type of farming	Investment* (Rs cr)	Acreage (acres)	Crop
KS Oil	Aggregation	450	50,000	Palm oil
A.M. Todd	Contract	NA	14,000	Mint
Jain Irrigation	Contact	501	7,000	Onion, mango & banana
ITC Agri Business	Contact	150	5,000	Potato
Desai Fruit & Vegtable	Contract	NA	5,000	Banana & other fruits
Mahindra Shubhlabh	Contact	0.01	4,000	Grape, potato
McCain India	Contact	125	2,000	Potato
Vista Foods	Contact	25	2,000	Iceberg lettuce, carrot
Bharti Delmonte	Contact	NA	2,000	Potato, fruits & vegetables
Essar Agro	Contact	NA	2,000	Iceberg lettuce, flowers
Spencer's Retail	Contact	NA	600	Fruits & vegetables

*Investment made over the past five years; NA: not available
Source: *BW* research

given a loan by the company and will work in 10,000 acres," says Sanjay Agarwal, MD of KS Oils in Morena in Madhya Pradesh.

About 1,500 farmers will work in the plantation by forming a cooperative and will sell the entire produce to the company. "On repaying the loan after eight years, the farmers will become our employees," says Agarwal. KS Oils has also been sourcing, storing, processing and selling mustard oil — called Kalash — in the Indian market. By working with over 2,000 farmers, the group has consolidated 5,000 acres of farm land in Chambal in Madhya Pradesh to produce 4,800 tonne of oil per day.

It's Not Hunky Dory For All

Not all stories have been that good. Four years ago, when Mahindra Shubhlabh contracted for 72,000 acres of land in Punjab for producing Basmati, wheat, sunflower and barley, they believed the farm-to-market connect was real. In 2009, the company is working with only 4,000 acres, and it has now limited its production to seed potato and grapes.

Vikram Puri, CEO of Mahindra Shubhlabh, says the most difficult task in agri-produce aggregation was to find a market that could pay a premium for parameters of quality such as grading and packing. The food business burns fingers. Mahindra Shubhlabh took nine years to make operational profits and Jain Irrigation took 10 years to break even in agri business. "Agri aggregation needs deep pockets and not many have the patience to survive," says Puri.

Pantaloon Retail's Kishore Biyani was the only retailer who did not want to dabble in aggregation, and has been strongly advocating his own approach to managing supply chains and sourcing. "It's not the job of the retailer to aggregate," he told *BW* in an earlier interview. "India has a traditional system that requires us to know how to work with farmers." Emails to Reliance Fresh on its aggregation experience remained unanswered.

Companies are also allowed to lease and develop wastelands with no limits on size of farms, but there have been few takers for that sort of aggregation. Skeptics about the corporatisation of agriculture also point to studies which show that smaller farms are as productive, if not more productive, compared to the larger versions, both in India and in developed countries.

In one sense, though, the biggest aggregator of them all is the government of India — both on inputs and outputs. For the majority of farmers who grow foodgrains — rice, wheat and pulses — the government offers a minimum support price, besides subsidies on fertiliser and other input. Since contract farming or any other similar arrangement offers no particular advantage, does aggregation help in any way?

Will It Work?

"Aggregation is a small cog in a larger wheel; we have larger issues to address here," says R. Ramaseshan, CEO of the National Commodities Exchange in Mumbai. "The real task is in creating a holistic marketing approach for farmers." Others think that aggregation helps in addressing other issues. "Farm aggregation avoids wastage," says B.S. Shiva Kumar, executive vice-president, agricultural business group, at Kotak Mahindra Bank in Mumbai.

On a medium-sized scale, aggregation has worked. Look to Samar Gupta, the promoter of Trikaya Agriculture. He has aggregated 125 acres of land and has leased another 120 acres from migrating farmers. By growing niche vegetables such as gherkins for local markets and hotels in Mumbai, Samar's business generates at least Rs 10 crore in revenues a year.

"Fragmentation is environmentally destroying the farmlands," says Gupta. "The future is in aggregation, and it will work if farmers themselves set the pace of change." He adds that there are many young farmers who are already en route to creating their own companies.

It seems likely that more companies will try different approaches to corporate farming. And it is also likely that states will continue to liberalise agricultural policy to accommodate some form of corporate participation in farming. The family and corporate farms could very well coexist, and be successful models.

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