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Business Standard

Buoyant Pepsi to take contract farming to troubled states

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Ram Prasad Ghosal, a potato farmer from Bamunpara (Dist Burdwan) in West Bengal, owns 10 acres of land. Just two months earlier, though, his ilk faced a major scare. The region witnessed a bumper potato crop of 9.5 million tonnes — 73 per cent higher than last year's production. Wholesale prices in Kolkata crashed to Rs 300 a quintal. Retail prices, too, dropped to Rs 6-8 a kg. Farmers were forced to sell their produce at Rs 3-3.50 a kg, almost half of last year's price.

Ghosal, however, was not worried. Not only were his fortunes hedged, but he also managed to get almost Rs 3 more per kg. He was one of the 6,500 potato farmers across six districts in West Bengal who got assured returns of Rs 6-8 a kg even as prices crashed around them. All had one thing in common — they were doing contract farming for food and beverages company, PepsiCo.

Hardly a year after working with Pepsi, Ghosal bought a tractor and potato harvester. "It has been a wonderful experience with PepsiCo. Assured fixed rates and expert technical help has totally changed my life. I associated with PepsiCo four years earlier and my profit has risen by Rs 20,000-25,000/acre per annum," says Ghosal. The company also helped him

getting cheaper loans and last year, he also bought weather insurance.

Bappa Mullick of Shaktigarh (Burdwan) has a similar story to tell. He used to earn Rs 7,500 per acre before associating with Pepsi; it is now Rs 18,000 per acre. Within a year, he renovated his home and today even owns a laptop.

How it began

What PepsiCo started as a pre-condition to its entry in India is today its most welcomed programme. When it entered India in 1989, the Indian government had made it mandatory for the company to do contract farming in the country, to help farmers improve crop yield through adoption of latest agricultural technologies.

The company identified tomato processing as a potential activity, as tomato paste was used by Pizza Hut/KFC/Taco Bell restaurants, part of PepsiCo at that time. The company tested this for about four years. The efforts resulted in manifold yield improvement of tomatoes from 16 tonnes/ha to 52 tonnes/ha. The improved yields helped increase farmer incomes despite lower prices to the consumers. PepsiCo entered into pre-agreed price contracts with the farmers. This was the beginning of contract farming in India.

The company started commercial contract farming with potato farmers in Punjab in 2001 and



More than 99% of farmers have stayed with the company for over a decade. PepsiCo plans to expand the project to Chhattisgarh and Bihar

gradually took it to West Bengal, Uttar Pradesh, Maharashtra, Karnataka and Gujarat. In Rajasthan, it has partnered with 1,200 farmers to cultivate barley in a tie-up with the United Breweries Group. Today, it is engaged with 22,000 farmers in contract farming to procure potato, paddy, barley, tomato and chillies.

It is now planning to take contract farming to Chhattisgarh and Bihar.

The company dismisses apprehensions of working in Naxal-hit states. It says if the company could do it in a "communist" state like West Bengal, it can do it in Bihar and Chhattisgarh, too.

Pepsi's contract farming initiative in India has been a success despite the country not having any contract farming policy. But, the company says it doesn't need any policy to govern its

contract farming venture. "It doesn't need any policy. It is guided by mutual trust," says Vivek Bharati, executive director, agriculture and external affairs, PepsiCo India.

Outcomes

A survey carried out by Nielsen in 2008 affirms that contract farming with PepsiCo has enhanced farmers' incomes in the state of Punjab and helped reduce indebtedness. The independent survey was conducted in about 30 villages located in the districts of Jalandhar and Amritsar, with a 200-farmer sample size. It included those who partnered with PepsiCo (160 samples) on the basmati paddy contract farming initiative and those who did not partner with PepsiCo (40 samples) on this initiative.

The report indicated that a majority of the PepsiCo farmers (96.4 per cent) who had taken loans were of the opinion that contract farming with PepsiCo had helped reduce their debt. This is also due to the fact that 94 per cent of the farmers felt the risk due to crop failure had reduced after adopting contract farming.

When the company started doing contract farming, it was being perceived as exploitation of farmers. As the commodities market is very volatile, the fair price would remain an issue. For example, if market price of a particular commodity goes up, the farmers bound in a contract with the company would lose. Bharati counters this line of thinking: "The company is flexible on price. We increase prices if the difference becomes too high and farmers ask for this. However, for small fluctuations farmers don't bother, since prices go up and down, too."

Bharati says the benefits to the farmers can be understood from the fact that Pepsi's retention rate has been more than 99 per cent over the past 10 years. "Why would farmers work with us if they are not getting better returns?" he asks.

Extensions

The initiative has also helped the company to adopt the latest agro-techniques. Last year, PepsiCo had opened an R&D centre in Punjab to

develop quality seeds and evolve other related technologies. The company recently started contract farming of potatoes in Satara district of Maharashtra, where water is a big problem. "Since potato is a water-intensive crop, and the district is water-deficient, we are helping the farmers use drip-irrigation technology, which reduces water requirement by 70 per cent. We give farmers incentives in terms of giving a little extra on our prices to adopt environment-sustainable technologies like drip irrigation," says Bharati.

This follows the company's promotion of other water conservation technologies among farmers like direct seeding technology. It resulted in significant water savings in the farming of paddy in Punjab and won the company the prestigious Golden Peacock Award for Excellence in Innovation in 2008. Pepsi developed and provided farmers with direct seeding machines free of cost.

PepsiCo has also developed a tractor-driven direct seeding machine which places the seeds at specified distance and depth and also applies fertiliser. The company has applied for patents for the same. It also has tie-ups with State Bank of India to facilitate loans to farmers at eight per cent interest. In 2008, it also tied up with ICCI Lombard to get farmers weather insurance.