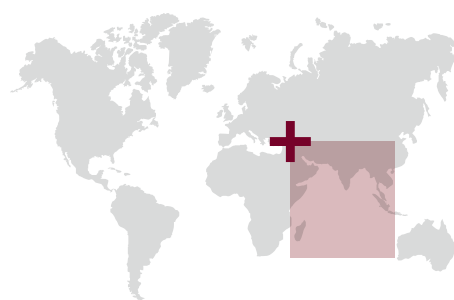


PepsiCo Contract Farming



AT A GLANCE

Name

PepsiCo Contract Farming

Duration

ongoing

Focus area

India

Target group

Potato farmers participating in PepsiCo contract farming programme

Funds available

Confidential

The project is jointly implemented by ...

PepsiCo, WRMS, and ICICI Lombard General Insurance Co.

The core objective is ...

to provide farmers with variant of seeds for contract farming that helps farmers have access to market but also in technological application, farm credit and insurance for their crops.

BACKGROUND

Potato farmers are vital to the production efforts of PepsiCo and to the nation of India, which ranks third in the world in terms of potato production. Contract farming is an agreement between farmers and the company for production and supply of agricultural products or commodities of a certain type, under forward agreements regularly at a preagreed price and time for a certain quantity. Motivated by the success of contract farming for tomato in several districts of Punjab, PepsiCo has been strongly imitating the model of food grains, such as in case of Basmati rice, spices like chilies, oil seeds namely ground nuts and vegetable crops like potato.

PepsiCo introduced index based insurance product in 2007 as part of its contract farming programme with the aim of limiting

weather related risk of the crop to the farmers and in its supply chain. Contracted farmers had the opportunity to manage the many risks associated with potatogrowing through a Weather Index Insurance product, sold through ICICI Lombard General Insurance Company and managed by Weather Risk Management Services (WRMS). WRMS is a private consultancy firm that designed the product, installed weather stations and manages the insurance aspect of the programme, charging PepsiCo a commission for the service. The data generated by WRMS weather stations have been a key input into index insurance policies. PepsiCo has systematically educated farmers about this product, conducting numerous training sessions and meetings for the various parties involved.

APPROACH

PepsiCo in India bundled an index insurance product with a contract farming agreement for farmers. The PepsiCo contract farming model differs slightly from state to state, but the basic model of operation is “Partners in Progress Model” where efforts are made to provide a winwin market linked to self-sustaining opportunities.

This specific index insurance plan is based on humidity levels and temperature and is focused solely on potatoes. PepsiCo offers an encouraging rate to the farmers for their product which covers a substantial portion of the insurance premium. PepsiCo has also a facility of broadcasting of weather information regarding rain and frost conditions that are unfavourable for the potato crop through towers installed in villages to provide information to insure farmers free of cost.

A total of 2,000 acres in Karnataka, 1,800 acres in Maharashtra and 900 acres of potato crop in Punjab was insured. In Maharashtra, where index insurance is compulsory for loanee farmers, 1,500 farmers have purchased it. Of the 1,500 PepsiCo farmers in Karnataka, about 75 per cent chose to purchase the insurance in 2008. The pay out in Karnataka in 2007 was up to 90 per cent of the sum insured, equivalent to Rs 22,500/acre, which may have led to the increased number of subscriptions in 2008.

The product triggered payouts for late blight disease are triggered if crops experience consecutive days of average relative humidity greater than 90 per cent and average temperature of 10-20°C. In subsequent years, a frost index was also added to the coverage, which triggers payout when the temperature falls below 1-2°C. Farmers need not lodge a claim. Instead the Insurance Company monitors the policy and calculates claims based on the certified data received from the third party agencies during the policy period. Following the success of trial runs in Punjab, Maharashtra and Karnataka, the scheme was rolled out for potato growers in the other Indian states.

Challenges

- **Inadequate investment understanding** or behavioural change hinders the contract farming scalingup.
- **The technical requirements to meet standard quality** of produce as part of the contract farming agreement deter farmers.
- **There are few companies involved** in contract farming, this can prompt to sell to different buyers by a way of extra contractual marketing
- **Lack of refrigerated vehicles for movement** of perishables produce, approximately 104 million metric tons of perishable produce is transported between cities each year.
- **Small-scale farmers engagements is difficult** for the PepsiCo company as small farmers’ lack knowledge about modern inputs and technology and are also difficult owing to lack of land.

Opportunities

- **A new market segment** has been reached through the PepsiCo contract farming models.
- **Reduced distribution costs** through the collaboration with Pepsi. PepsiCo provides procurement during harvesting, quality standards are checked up and grading, bagging and transport of the production from farm gate is arranged.
- **Development of a loyal supply chain** through a very strong extension network, technical support and training of farmers by PepsiCo co. helps to monitor and maintain quality at every level.
- **Agricultural productivity can be elevated** through government programmes that combine technology with good agronomic practices.



CONCLUSION

The project covered over 12,500 farmers and provided insurance education to over 25,000 farmer households. It also helped introduce and establish a new product concept in the country and attract more players and investment into the weather index insurance market. Based on the experience, the Global Index Insurance Facility (GIIF) of the International Finance Cooperation (IFC) has provided funds for expansion to new crops and areas. Four new crops are being included (rubber, maize, coconut and banana), in addition to tea which has already been introduced.

SICL also received the Agribusiness award from the National Agribusiness Council. The company will keep collecting feedback from the field and modifying processes to ensure greater product outreach and understanding.



LESSONS LEARNED

PepsiCo gave the farmers an additional amount of Rs.0.15 per Kg on the buy-back rate of potato tubers. This amount covered approx. 50% of insurance pre-mium to encourage farmers to invest in the insurance program when they might otherwise have not.

Private contract farming is just one tool that leads to enhanced productivity, but the government should do much more to derisk farming.

Better education on insurance to the farmers, since multiple players were involved.

Weather changes and crop infestation advisory message to each farmer via mobile phone to pro-mote timely corrective measures in advance to pre-vent avoidable losses provide value to the farmers and also help in improving stickiness to the programme.





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For more information on the project visit:

www.iosrjournals.org/iosr-jbm/papers/ICSE%20Conference/14.75-85.pdf

www.weather-risk.com

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