Contract Farming and McKinsey's Plan for Transforming Agriculture into Agribusiness in West Bengal

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Swagato Sarkar

Abstract
Agriculture has been the target of modernization for a long time. The earlier interventions of deploying ‘green revolution’ technologies were a statist project and aimed at increasing productivity. The focus of public policy has shifted from increasing productivity to finding and servicing consumer markets. It is in this context that contract farming and linkages with formal retail sector have been proposed.

The erstwhile Left Front government in West Bengal, India, had drafted the management consultancy firm McKinsey & Company to strategize a rejuvenation plan for the state’s agriculture. McKinsey suggested that the government should encourage farmers to enter into contract farming, which would allow them to access market, especially international and domestic metropolitan markets. The documents produced by McKinsey were confidential, but have recently been leaked. In this article, I analyze these confidential documents and the proposal to transform agriculture into agribusiness. I try to locate such a proposal at the global level to understand the dynamics of (global) agribusiness and why global agri-capital advocates contract farming. Thereafter, I try to critically evaluate the prospect of contract farming in Bengal and India.

Keywords
Contract farming, agribusiness, global agriculture, agrarian crisis, McKinsey, West Bengal

Agriculture has been conventionally accorded a tragic role in the narrative of modernization in the postcolonial world. The word ‘crisis’, and even ‘signs of deceleration’ (Kumar, 2006, p. 5367), dominates the discussion. The literature on
contract farming in India emerges from this narrative as it starts with the expected discussion on the crisis of post-green revolution agriculture, ecological degradation due to over-exploitation of groundwater and use of chemicals and the need for diversifying crops (from wheat and paddy to high-value or export-oriented crops). Scholars tend to evaluate contract farming in terms of mitigation of risk and uncertainty in production and price, increase in productivity in value (that is, value of output per acre) and comparatively better income earned by the contracting farmers over their non-contracting counterparts. Based on these criteria, contract farming has been declared to be successful and beneficial to the farmers in Andhra Pradesh (Dev & Rao, 2005), Punjab (Kumar, 2006) and various other states of southern and western India. This success has been attributed to the provision of better seeds by private contracting companies, deployment of machines and training to use those, ‘scientific advice given to them by the research and extension staff of the companies’ (Kumar, 2006, p. 5373), intensive supervision of production process and infrastructural support to procure the outputs. Contract farming has induced farmers to move away from wheat and paddy cultivation, and to diversify their crop portfolio. However, more chemicals and water seem to be used by this new arrangement (Dev & Rao, 2005). It must be noted here that since contract farming is new in India, most of the studies have drawn conclusions based on relatively short-term observations. The development of monopsony power of the contracting companies takes time and it is already ‘reflected in potato and tomato cultivation in India’ (Swain, 2011, p. 61).

The Indian literature sees this ‘crisis’ as a localized phenomenon and the discussion remains silent on the restructuration of global agribusiness in the recent years within which a farmer finds him or herself. It does not question the predicament of the state—after the successful run of ‘green revolution’ interventions in various parts of the world, including India, the states seem to have exhausted the options to ‘uplift’ the farmers. This literature does not mention that the very concern for integrating farmers vertically with supermarkets and retail chains through contract farming to access market, especially international and domestic metropolitan markets, and obtain better price for their produce is ideologically driven. Many scholars also clearly advocate for the state to play the role of regulator and facilitator, and to leave the business of contract farming to private companies. In case of Punjab, Kumar (2006) reports that the state-promoted Punjab Agro Foodgrains Corporation (PAFC) has not been successful in its contract farming ventures, whereas contracts entered by the private Indian and multinational companies (MNCs) such as Pepsi, Unilever, Monsanto, Cargill, Pro Agro, Advanta India, Sygenta India, Pioneer India, Escorts, DCM Sriram, Mahindra Shubh Labh, Tata Chemicals, LT Overseas, KRBL and United Breweries were both viable and profitable. Kumar (2006, p. 5375) concluded, ‘The role of the (state) government should be that of a facilitator rather than being self-indulgent.’

To adopt a critical approach to contract farming would require us to go beyond the Indian experience and ask: What are the long-term implications of adopting
contract farming? But this is a predictable question; rather, I want to ask a question from the point of view of capital: Why does global agribusiness need contract farming? This question would help us to explore the predicament of capital. I want to understand the logics of contract farming and its articulation with global agribusiness, and explore the conditions of possibility and impossibility which govern contract farming.

Most of the studies in India share intellectual affinity with institutional economics and therefore focus on the performance of contract and various types of contracts and market arrangements (for example, presence of brokers), formal and informal contracts, institutional conditions that govern productivity, process-related issues like payments and procurement, etc. I want to study contract from the perspective of structural conditions which generate and govern asymmetric power relationships. The study of asymmetry does not lead me to explore the opportunity, or to plead, for the inclusion of small farmers into the global agribusiness as Singh (2005, p. 5584; also, see Singh, 2012) seems to do, ‘They [private contracting firms] also tend to prefer to work with larger growers which leaves smaller ones out of the system of contracting and the opportunity to benefit from it.’

I study the ‘confidential’ documents prepared by the international consultancy firm, McKinsey & Company, for the erstwhile Left Front government in West Bengal, India, to push farmers into contract farming. After analyzing McKinsey’s documents, I locate its proposal to rejuvenate agriculture in the global agribusiness and try to understand the predicament of organized capital vis-à-vis agricultural production. Instead of an exercise in policy analysis or evaluation to arrive at a conclusion whether contract farming is good or bad, I want to get critical insight about the dynamics of (agrarian) capitalism.

**The McKinsey Way**

After coming to power in 1977, the Left Front government in West Bengal adopted an agrarian programme wherein the sharecroppers were registered so that they could not be evicted without the permission of the state. The government also adopted a limited land reform programme and redistributed land among the landless agricultural labourers.

Over the last few decades, paddy cultivation in the state has increased steadily to 15.3 million tonnes of rice, of which 2.3 million tonnes is thought to be marketable surplus. But with a gradual withdrawal of subsidies on fertilizer, pesticides and electricity under the liberalization policy of the central government, the farm input cost has increased considerably, along with an increase in the cost of labour. The inter-state flow of grains has been eased, and cheaper grains from other states have started to enter the local market. The market demand of West Bengal’s rice has remained stagnant or has dampened. These factors have led to
a decline in the price of paddy at an alarming rate (Ghosh & Harriss-White, 2002; The Economic Times, 2012).

The government had appointed the management consultancy firm, McKinsey & Company (henceforth, McKinsey), to suggest a plan to restructure agriculture in the state. McKinsey had drafted the ‘Agribusiness Vision for West Bengal’: ‘[to] leverage its strong natural advantages to establish positions of international and domestic leadership…a roadmap for the state has been provided and attractive market opportunities for private investors outlined’ (McKinsey & Company, 2002a, no page no., passim). The report states, ‘[i]mmediate actions to convert the ongoing investor discussions…[which] includes a) labour exemptions for retail sector and, b) declaring contract farming guidelines (ensuring land is not alienated from the farmer)’. On contract farming guidelines, it states:

several established and credible companies are willing to provide assured markets and remunerative prices for farmers. They would like to enter into trust-based contract farming relationships with farmers who will continue to own their own land (land alienation will strictly be prohibited)...A preliminary draft has been developed by McKinsey (based on international practices and inputs from Agriculture and other departments)...Companies such as Hindustan Lever [owned by Unilever; my additions, passim], Cargill [an American agribusiness multinational] and ITC [an Indian multinational] are planning to conduct international market surveys to determine which scented rice varieties of West Bengal can become strong brands (like Basmati). A team of experts from [the] Department of Agriculture will need to continuously interact with these companies to provide them samples and other expert advice to assist them in their effort to promote West Bengal...As the shift from agriculture to agribusiness is made, a number of participants across the food value chain will play an important role viz. input, extension, storage, marketing, processing and retailing. (McKinsey & Company, 2002a)

McKinsey sees contract farming as an ‘optimal model for agribusiness’, as ‘contract farming balances roles of the farmer and the corporate, with each party doing what it is best at’ (McKinsey & Company, n.d., Exhibit 2). It describes ‘the roles of the constituents’ of a contract:

[the farmer] will own the land and produce the agricultural crop. He will be responsible for providing the land and labour, and for crop management. The farmer will bear the risk of crop failure, except in extreme circumstances like floods and cyclones where the state or the company may provide support. The agribusiness company will provide the off take for the farmers’ produce by using its processing and marketing infrastructure. It will also help the farmer with inputs and services to grow the variety and quality of produce required. The panchayat samiti may act as a liaison between the farmer and the agribusiness company and help to build farmers’ confidence on the contract relationship. It may help the company interact with the farmers, helping in discussions regarding the elements of the contract. It will help in channeling state funds to the farmer. The district administration will play an enabling role
in the formation and execution of the contract relationships…[i]t will not intervene except in extreme situations (like a dishonoured contract or a natural disaster) where it would play the arbitration and dispute resolution roles. (McKinsey & Company, n.d., no page no.; emphases in original)

McKinsey also suggests that the state government should adopt a relaxed labour regulation and provide exemption from the Land Ceiling Act. The state government should develop the non-forest wasteland; gradually build infrastructures, like green houses, irrigation, cold room, facilities for grading/packaging, mobile refrigerated trucks and equipment. It should also provide capital subsidy, up to 20 per cent, to fruit and vegetable industries, and also financial support to certain large-scale projects, such as cinchona plantation (various documents drafted by McKinsey).

It is important to note that McKinsey tries to counter the popular apprehension of land alienation and seeks to incorporate the state apparatuses into the process—both of which are symptomatic to the late developments in capitalism, wherein capital needs to be flexible and not invest in non-profitable fixed assets. The incorporation of the state apparatuses lends credibility to the venture and creates trust, and more importantly, finances or subsidizes the complementary resources like infrastructure. At the grass-roots level, the involvement of the panchayat (local self-government institution) helps to avoid an adverse selection and check the free-rider problem, reducing risk to capital.

McKinsey’s proposal for contract farming and the presence of willing MNCs to explore the possibilities of contract farming in West Bengal is embedded within the questions of access to the international and domestic metropolitan markets and the structural barriers to that. Such structural barriers are a product of history of agrarian societies; and collaboration with the MNCs or large capitalist enterprises now appears as the only way to overcome this barrier. Thus, we need to contextualize the McKinsey documents within a broader framework of the political economy of global agribusiness, and explore the conditions of emergence of contract farming.

In the following sections, I will attempt to understand the moments of restructuration of global agribusiness, which have allowed the near-monopoly capital to consolidate its grip and accommodated further demand for accumulation. I will concentrate primarily on the development of contract farming in high-value fresh fruits and vegetables (FFVs) sector, partly because McKinsey puts emphasis on that.

My account of this change might seem to be deterministic, presenting a single-sided view of capitalist expansion and obscuring any resistance to that. I am fully aware of such resistances and the agency of local communities; but for brevity, I will restrict myself to a study of general trends, rather than presenting a totalizing account, of global agribusiness or contract farming. What interests me is the inter-linkage between various levels of global agriculture.
The Restructuration of Global Agriculture

To analyze the process of the capitalist transformation of agriculture, we must distinguish between farming and agri-food system. Farming is the physical process of turning inputs like seed, water, fertilizer and pesticides into primary products like paddy, tomatoes and mangoes on a specific site—the farm—using soil, labour and machinery. The failure of classical capitalist concentration in farming, on an international scale, arises from both financial and physical features of farm production. First, the ownership of farmland is unattractive to capital because it cannot be depreciated, and investment in farmland has very low liquidity, particularly in ‘Third World’ countries, as a consequence of underdeveloped land market. Second, the labour process on very large farms is hard to control because farming operations are spatially extensive; and third, economies of scale are hard to achieve beyond what has already been realized by medium-scale enterprises. Fourth, risks from external natural events like weather, new diseases and pests are hard to control. Finally, the cycle of reproduction of capital cannot be shortened because it is linked to the seasonal or annual growth cycle of plants (Lewontin, 1998; Woods, 1998).

The agri-food system, however, is not simply farming. It includes farm operation, but also production, transportation and marketing of the inputs to farming, as well as the transportation, processing and marketing of the farm outputs. While farming is a physically essential step in the entire chain of agricultural production, provision of farm inputs and transformation of farm outputs into consumers’ commodities are also significant, as both the sectors provide opportunities for capital accumulation (Lewontin, 1998, p. 74).

The restructuring of global agribusiness has been facilitated by three types of changes: importing and exporting countries’ agricultural policies; the growth of MNCs; and the development of agri-input technologies and transportation. These changes are embedded within the shifts in the broader political economy: international, regional and local trade treaties and adoption of legal instruments; changes in international financial markets; and consolidation of distribution and marketing of commodities in the Western world.

The Government Policies

The present structure of the international agro-food system has its origin in the post-World War II policies of the major Western countries, notably that of the United States (US). Under the ‘New Deal’, the US administration offered a minimum price support to certain commodities and maintained this price through state purchases. This, in turn, encouraged farmers to produce more and also increase productivity by mechanizing the on-farm production process and through extensive use of chemical fertilizer and pesticides. Mass production of staple food
crops such as wheat, maize and soy (used as animal feed, with soya oil as a by-product) and extensive and organized livestock rearing were undertaken. Though family-run farms remained pivotal in this production system, gradually large agro-food corporations, like Cargill and ConAgra, emerged. These corporations are still among the most powerful MNCs in agro-food trading. They became important players in the international grain trade under the US food aid programme known as Public Law 480 (PL 480) for the ‘Third World’ countries. Later, they supplied inputs (chemicals and equipment) for ‘green revolutions’ in many of these countries (Friedmann, 1994).

Finance and the Growth of MNCs

Over the last few decades, the growth of MNCs involved in agribusiness has been a gradual process, marked by takeovers, mergers and amalgamation of various firms to create networked entities. Such operations require capital investments, which are mostly supplied on credit by the financial institutions. The recycling of petrodollar (after the oil and wheat crises in 1973–1974) and the development of bond and equity (security) markets have accelerated the buying and selling of financial instruments and the trading of bonds and equities in corporate restructuring (Marsden & Whatmore, 1994). The condition for attracting capital investments is that capital should grow steadily, so as to offer a desirable rate of dividends and interest payments (Hefferman, 1998), and this further dictates the expansion plan of the companies. The target firms for acquisition must have established revenue streams. The new acquisitions must also fit into the overall strategy and field of operation decided upon by the parent company.

Marsden and Whatmore (1994, p. 113) have charted the growth of the Hilldown Holdings. This company has significant market share in red meat, bacon, poultry and eggs, and also supplies non-animal feeds and chicks. Through acquisitions, this company now has a total of 150 subsidiary companies, including 25 abattoirs, food processing and meat trading companies, which helped it to become the third-largest European food conglomerate. Unilever, one of the largest agri-food companies, undertook major restructuring in between 1983 and 1988. It sold 90 firms (worth approximately £2.3 billion) and purchased a further 100 firms (costing £4.7 billion). The merchant banks provided credit to undertake this operation. The Imperial Chemical Industries (ICI) group, involved in agro-chemicals, borrows from over 300 banks throughout the world to finance their operations (Marsden & Whatmore, 1994, p. 109).

But access to this financial capital is a complicated process, generally restricted to a few large organizations, and consequently has aided them to dominate the global agro-market. Norsk Hydro and Kemira, two MNCs, together have the potential to hold 90 per cent of the European fertilizer market. In feed stuffs sector, three companies—Bocks Silsock, Dalgetty and Pauls and J. Bibby—control 57 per cent
of the British market. In agricultural machinery market, four largest companies control 77 per cent of the British market (Marsden & Whatmore, 1994, pp. 118–119).

**The Input Market**

The opportunity for capital accumulation is not just restricted to the trade in farm outputs but also at the farm input level. Concurrent to the growth of MNCs in the output market, firms engaged in seed production have also expanded and started to collaborate with public-funded research institutes, with the state policies in the US and Britain encouraging such partnerships. They have strengthened their own research and development (R&D) capacities too (Sahai, 1999).

Lewontin (1998, p. 76; emphasis in original) argues, ‘the concrete use of all [the] inputs is to produce living organisms’, which being mortal, ‘their production requires their reproduction’. The seed is central to the origin and completion of the agricultural cycle and the biological control of seed is the key to control on-farm agricultural process.

The seed technology itself has undergone change, some of which suits the demand of capital accumulation. When good-quality seeds are planted by a farmer, she or he gets good-quality seeds at the end of the life cycle of the plant. These can be sowed in the next agricultural season. But the seed companies would like to break this self-reliance and compel the farmers to buy seeds from the market at the beginning of every agricultural season. Initially, plant hybridization offered the solution by developing seeds that germinate into hybrid plants offering better yield in the first generation but low yields thereafter. This technology was successfully developed for maize, and later for certain other crops, and earned immense profits for the seed companies. This technology however had a few shortcomings. First, hybrids have not been successfully bred in many important crops like soya beans and wheat, or in large animals. Second, while the inbred/hybrid method was successful for general yield increases, a large number of important qualities such as resistance to particular diseases, resistance to herbicides or increase in oil content do not show vigour in hybrid plants and must be introduced by other breeding methods. Third, there are characteristics that would be desirable to introduce into an agronomically important species, but which are present in other organisms that cannot breed with the species under cultivation (Lewontin, 1998, pp. 77–78). The seed companies attempted to bring about radical changes in the biological composition of a seed and at the same time, retain and consolidate the ownership and control over it. This was one of the major factors responsible for the application of biotechnology in agriculture.

The new biotechnology purportedly offers precision selection, segregation and reinsertion of genetic materials onto a different organism to create a ‘new’ or modified variety, which may be bred to meet specific demands: better yield, resistance to pests, increased oil content, seedless fruits, particular colour, size, etc.—in other words, now it is possible to design a variety—though the process is still
under experimentation and only a few modified organisms have reached the stage of commercial exploitation (Hawkes, 2000).

The Intellectual Property Rights

But this process of development of modified varieties requires considerable amount of capital investment and hence can only be undertaken by well-endowed public institutions or large MNCs. Thus, it was also imperative for the investors (and developers who receive royalty from such innovations) to acquire exclusive proprietary rights over the genetically modified organisms. This demand is met by combining legal and biological instruments available to the breeders. The formal adoption of the Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement under the aegis of the World Trade Organization (WTO) and national-level ‘Seed Protection Rights’, like the Plant Variety Protection Act in the US, offers exclusive proprietary rights to the breeders. The farmers under these Acts are not allowed to sell or donate seeds to others, and in the US, they are not even allowed to reproduce their own seeds (Lewontin, 1998, pp. 78–80; cf. Sahai, 1999, 2001). The enforcement of the laws depends on proper identification of the crop under cultivation by a farmer and ‘this can be easily done from a single plant or even a single seed because the DNA of the engineered variety contains certain characteristic sequences, placed there deliberately by the genetic engineers that are unique to the variety’ (Lewontin, 1998, p. 80). Contract farming, being easy to monitor, is one way to ensure a strict enforcement of the intellectual property rights.

Distribution

In the US, the initial stages of near-monopoly capital in agriculture was involved in large-scale high-yielding crop production, which was also highly mechanized and required heavy application of chemicals and, in some cases, water. This process of production yielded large quantities of staple food, which were then processed to produce what Friedmann (1994, p. 178) calls ‘durable foods’. But the overall inelasticity of food demand sets barrier to capital accumulation on an extended scale. The real market gains cannot be realized only through increase in farm outputs, but through value-added differentiation of products and through the management of consumer-level distribution and retailing (Friedland, 1994). One of the major factors that have shaped this shift towards value-added differentiation is a definite change in the dietary habits of consumers in Western markets.

The steady growth of post-World War II Western economies has created a huge middle class in these countries, with considerable buying power and demand for ‘quality food’, fuelled partly by the ‘health movements’ in these countries. Over the last three decades, there has been a considerable surge in the demand for FFVs from Western consumers. The consumers now need to be offered choices and
options of food and other fresh produce, like flowers: production has had to shift from Fordist model of mass production to a flexible Sloanist model, that is, offering choices to consumers.

These developments have significant consequences for the organization of farm production, distribution and marketing. ‘Of the total value-added activity, production accounts for 27.7%, marketing for 41.8% and distribution for 30.6%’ (Friedland, 1994, p. 180). Distributors have developed a role as a bridge between various farm producers and the retail markets. Trading of commodities in this international market has been aided by the development in food preservation technology and transportation. The initial stage of food preservation was marked by locally concentrated food canning industry. With the development of frozen food technology, both established and new firms restructured the processor-to-consumer food delivery chain. Frozen food was readily accepted by consumers as it tasted better than the canned food, and the canning industry declined. In this phase, food processing firms like Nestle, Heinz and Campbell consolidated their base (Hefferman, 1998). The development and integration of ‘cool chains’ across the surface, sea and air transportations enabled the food to be stored at a particular and steady low temperature from the point of origin to the consumer.

A significant development in the retail sector is the expansion and consolidation of supermarket chains. ‘By 1990s the top five retailers held 62% of British national sales’ (Watts, 1994, p. 42). Supermarkets require an annualized, steady and predictable flow of fresh produce of standardized quality. This flow is accomplished: first, by extending the production season through plant breeding and later, by applying biotechnological innovations; second, by introducing newer varieties of fruits and fresh vegetables, for example, through the development of ‘tropical exotics’ category in Western markets; and third, by integrating various production sites and using complementary seasons of the Northern and Southern Hemispheres. The table grape produced in the Northern Hemisphere was unavailable from January to April in the Western markets. By developing Chile as a new production site, this seasonal gap of table grape has been plugged (Friedland, 1997, p. 230). ‘Fresh fruits and vegetables are thus [procured] to meet niche markets through the expanded role of highly contracted retailing capital operating on a global scale’ (Watts, 1994, p. 42).

**Contract Farming**

The growth of MNCs, along with the financial capital and legal instruments backed by the authority of the state, could potentially create a hegemonic structure wherein they have greater control over the input and output markets vis-à-vis independent farmers. This input market is tendentially oligopolistic and output market is monopsonistic. Yet, this hegemonic formation must face the ‘petty commodity’-producing peasants, endowed with land and labour. The peasant also has

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the autonomy and capability to decide which crop needs to be produced, as well as mobilize his or her own agricultural inputs such as seed, manure and labour. Peasants produce both for themselves and also for exchange in local markets (Williams, 1981, p. 33). If the labour market is underdeveloped or stagnant, a household with under-consumption and surplus labour ‘would seek to expand their consumption-fund [by intensifying production]…even if, in the course of doing so, payments to each unit of labour were thereby depressed’ (Banaji, 1976, p. 1597). If a peasant family can survive in such an extreme agrarian crisis, then it follows from this that large capitalists would find it difficult to subordinate and establish a hegemonic control over large and medium farmers who are in a better position and are already producing marketable surplus.

Thus, agribusinesses need to persuade these peasants to enter into its hegemonic fold. This possibility was apprehended by both Karl Kautsky and Alexander V. Chayanov,

whereby firms incorporated peasant producers into their process of production by advancing credit for food and for means of production and buying their crops. Capitalists may intervene in the organisation of production, laying down inputs and crop rotations. Eventually, they develop the whole complex of agro-industrial activities which convert the farmers into labour force working with other people’s means of production…In this way capitalists are able to command the value of the labour-power of rural producers without having to organise and manage the production process itself, and to enhance the productivity of peasant producers by supplying them with improved means of production. (Williams, 1981, p. 31)

Such an opportunity has been provided by both overproduction without an access to the international market and the macroeconomic instability in most of the ‘Third World’ countries, which created spaces for global and local capital to engage with grass-roots-level production processes. And McKinsey’s proposal for contract farming attempts to a build bridge between such capital and grass-roots-level production.

Contract farming occupies a unique in-between space within ‘modern’ and ‘traditional’ agricultural production process: capital invested has a mercantilist character, yet it participates partially in organizing the production process; and inputs are similar to that of any ‘modernization of agriculture’ programme, yet it can retain ‘non-modern’ land relations based within the family or the community. It is

a non-equity form of control over production..., represents one fundamental way in which the twin processes of internationalisation of agriculture and agro-industrialisation are taking place on a global scale…[C]ontracting signifies...the advance of the industrial appropriation of the rural production processes. (Watts, 1994, pp. 23–24)

Contract farming links the independent farmer with his or her assets with a procuring agency, be it a private or a public enterprise, with an agreement of sale of
produce at a price fixed in advance, adopting a particular production process, inputs, practices, maintaining a standard quality and the supply of credit. This arrangement takes place outside the open-market exchanges. The peasant provides his or her property and labour power to the production process, as well as monitors the crop quality. In most of the cases, the contractor provides certain inputs, makes production decisions and provides general supervision. Contract farming thereby accommodates the peasants’ assets into the international production process. The contractor does not invest in fixed assets like land, which can be subjected to expropriation and local regulation, as happened in certain central American countries in the 1960s and 1970s (Sanderson, 1986). Contract farming then meets all the objectives of the hegemony of the restructured global agribusiness and the interest of near-monopoly/oligopoly capital. It offers multiple production sites, provides a steady supply of quality food materials and allows tighter enforcement of intellectual property rights embedded within the discourse of ‘rule of law’.

The emphasis of the McKinsey documents on FFVs and flowers is a significant one. These are ‘affluent commodities’ with income elastic demand and offer higher profits than mass-produced staple food to the distributors and the growers too. Since food and flowers are subjected to extensive quality control, the legal documents of contracts usually have detailed descriptions of the quality and standard which the farmer must provide (cf. Singh, 2005, on contract farming in Thailand). In partial response to such on-farm quality control, the contracted crop requires extensive care and labour deployment, which is provided either by drawing in family labour or employing wage labourers. Dev and Rao (2005, p. 2710; emphasis added) present this obvious fact as a positive outcome: ‘[contract farming has] increased employment opportunities to family labour as well as other labourers and also wages’.

The labour relation in this production arrangement remains (in the legal sense) informal and the contractor neither has any obligation for labour welfare nor has to face demands from any organized and unionized labour force. The farmers are indirectly integrated into the capitalist economy and operate within a hegemonic formation where their autonomy is suspended and the farm gate price of the commodities is mostly determined by the contractors. In many cases, the inputs are also supplied by the contractor, often on credit, with the possibility of a farmer accumulating debt. In this context, Watts (1994, p. 28; emphases added) mentions, ‘production price and market risks are subject to differential allocation…the grower is bound by a piece-rate system in which he or she bears production risk but none of the price risk’. The crops remain susceptible to the vagaries of climate and pests, and any failure of crop or degradation of quality and the consequent rejection by the contractor would not allow a farmer to recover his or her investment. The loss will solely be borne by the farmer. Quality and standards are the new tools of power used by the contracting companies. If the open-market price crosses the agreed price, then also the farmer loses as, in very few cases, the contract allows farmers to sell in the open market (Hefferman, 1998).
But Watts’s argument that farmers do not stand to face any price risk is derived from a short-term analysis of agricultural market and need not necessarily hold good universally. If the open-market price falls below the agreed price under the contract, then the contractor bears the risk. But there is no reason why the market price will remain steady or grow. The market price can decline secularly over a period of time, arising out of a stagnating demand (in the long run, negating the present income elasticity of ‘affluent foods’) and overproduction due to new entrants in the market. If that happens, then the contractor will either renew the contract at a lower price than the earlier agreement(s) or will leave the contract. This might create a cocoa-, coffee- and cotton-type scenario where farmers often are not even able to recover the production cost. Perhaps the Indian farmers are aware of such a situation, and therefore, it has been observed that farmers who enter into contract farming often hedge their production by keeping two-thirds of their operational/production area out of contractual agreements (Kumar, 2006, p. 5369).

However, contract farming itself is not a static agricultural arrangement. Raikes and Gibbon (2000) have illustrated the dynamic nature of the restructuring of agriculture, including contract farming, in sub-Saharan African countries. Most of these countries undertook structural adjustment and economic stability programmes, and the parastatal agencies, which also looked after marketing of the products, were either dismantled or became less active; subsidies were eliminated or reduced, making supply of input effectively unavailable. The solution proposed by the World Bank—very similar to McKinsey’s proposal—was to move to ‘a private sector-organised high input small holder farming sector specialising in high value “non-traditional” export’ (Raikes & Gibbon, 2000, pp. 73–74). But the FFVs sector in Africa had already started to decline around this time. Senegal was a leading producer of high-value FFVs in the late 1970s, with exports reaching 9,000 tonnes per year. This declined to 5,000 tonnes by 1994/1996. In Kenya, high-value FFVs began as smallholder crops in the 1960s; by 1996, smallholders accounted for only around 30 per cent of exports. ‘In all [these] cases there was a correspondingly steady decline in the significance of contracting, relative to its earlier importance’ (Raikes & Gibbon, 2000, p. 74; emphases added).

In many instances, smallholders were displaced and the markets have been captured by others, notably by producers engaged in large-scale commercial farming (LSCF). ‘By the second half of the 1990s, an extreme degree of concentration was emerging in the Kenyan horticulture sector: the top three LSCF producers accounting for 45 per cent of total exports and the top 10, 69 per cent’ (Raikes & Gibbon, 2000, pp. 74–75). The contracting firms also outsource the lower functions like sorting, processing, barcoding and cool chain provisions to another intermediary or directly to the farmers. The large farm can, in the long run, guarantee the volume, quality and reliability of delivery requests. In India, especially in Punjab, researchers (Dileep, Grover & Rai, 2002; Kumar, 2006; Singh, 2000) have observed that contracting firms prefer large farmers and increasingly, small and marginal farmers are leasing out their land to medium and large farmers,
a phenomenon which has come to be known as ‘reverse tenancy’. Kumar (2006, p. 5369) explains, ‘It is apparent that a larger size of operational holdings seems to be more economical under contract farming and as a result, even large farmers tried to increase their operational land to gain economies of scale by leasing in more land.’

In the short run, contract farming can offer a section of peasant population a better price, but in the long run, it may also create an unstable situation if the core issues within contract farming such as insurance from risk and fall in demand of crops under contract farming are not addressed. This phenomenon of initial favourable return and later tightening of terms and diminishing return is known as agribusiness normalization in the literature (Glover & Ghee, cited in Dev & Rao, 2005).

Conclusion

McKinsey’s proposal to encourage farmers to enter into contract farming, and an enthusiastic response from the state government, itself indicates a shift in the discourse of ‘rural development’. Earlier, rural development was constructed around, first, removal[al] [of] control of resources from peasant, turning peasants into wage workers and leaving the direction of production in the hands of capitalist entrepreneurs...[and second,] ‘[r]ational peasant producers [could] be ‘improved’ by providing them with modern inputs, teaching them modern practices, and facilitating the marketing of their produce... [t]he problems of the peasantry [were] explained by their exclusion from the ‘modern’, that is the market...rather than by their exploitation by it [as in the Tanzanian experiment of Ujamaa and ‘green revolution’ in Punjab, India]. (Williams, 1981, p. 30)6

However, McKinsey acknowledges the peasant’s unique orientation to the market and his or her possessions—fixed assets and labour (including his and her knowledge and skills). Then the attempt would be to accommodate this peasant into the capitalist production in the name of restructuration of agriculture and transition to agribusiness. Here, the emphasis is solely on production and income, and no grand claims of social development are proposed, nor are any goals of national or regional development to be achieved—as opposed to the objectives of ‘green revolution’: self-reliance in food, or that of land reform programme: social justice. The approach here, instead, is technocratic, finding ‘solution’ to a perceived singular ‘problem’.

Though at the rhetorical level, contract farming proposes to offer better farm gate price to the farmers, but in reality, it is devised to earn better rate of return for the investors. This necessary condition also confines the choice of crops that can be produced, that is, crops that have a ready market and would fetch higher prices. In the case of West Bengal, McKinsey suggested that cultivation of pineapples,
lychee, mangoes, orchids, scented rice and shrimps (where saline water bodies are available) should be undertaken. The identification of, and specialization in, particular commodities becomes the primary concern and preoccupation of the policymakers. The approach of policymaking is then, within the context of contract farming, to paraphrase McKinsey, ‘based on investor interests’ (McKinsey & Company, n.d., no page no.). As contract farming is organized under the aegis of investors’ interests, so it is also necessary that the local market be organized in their interests. The response in this regard has been a near-monopoly control of input supply and monopsony control over output purchase, with simultaneous blocking or banning exchanges of similar commodities in the local market. This process has two consequences: first, it can hinder the development of local market; and second, it can restructure the market demand and prices, with no beneficial effects on the local producers and consumers.

The proposal of contract farming indicates the desperate situation within which the regional governments, like that of West Bengal’s, find themselves. The political urge to address the crises in agriculture is mediated by the pressure on them to perform, which then translates into certain immediate and short-term goals. The greater question of social development is either suspended or is assumed to be achieved from such capitalist interventions. The very fact that investors are interested in contracting particular commodities helps us to deduce that the geographical space where contract farming would be practised is limited by the choice of desired crops and hence, there is a little scope for contract farming to become a universal phenomenon in West Bengal and elsewhere. There will be spaces left out, where such farming would not be practised, and at the same time, the state intervention might also be miniscule in these areas, leaving the perceived agrarian problem unresolved on a larger scale. The resolution of predicaments of capital and the state resulted in the strengthening of the grip of capitalism and market economy; the search for solution to agrarian crises ended in the very problem of market where it had all begun.

Notes
1. The grains of other states can be cheaper when the input cost varies, if the concerned state provides subsidies and cheaper labour is available or farmers sell under distress (Ghosh & Harriss-White, 2002).
2. The entire process of deliberation was held privately and the reports produced were marked as confidential. Thankfully, parts of the report and memoranda have been leaked. This introduction is based on such documents, which I have managed to collect.
3. McKinsey & Company, 2002b, Memorandum to Principal Secretary, Commerce & Industries.
4. There are instances of farmers selling crops ‘illegally’ when prices are high in the open market, violating the contract.
5. Discourse of ‘rural development’ in general, not specific to West Bengal.
6. This perspective is still reflected in Sukhpal Singh’s (2005, 2012) writings.
7. McKinsey does propose the need to gain ‘first’ or ‘second’ position[s] in certain crops, but those are not linked with greater social development.
References


———. *Immediate action required to catalyse investment in the agribusiness sector*. Memorandum to Principal Secretary, Commerce & Industries.


