

## Agroforestry development

# Commercial agroforestry investment schemes in India

## Success or failure in the context of the rural economy

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### 1. Introduction

In recent years, the concept of agroforestry in India has undergone radical changes. Of late, new models of commercial agroforestry have evolved in the country creating a number of new investment opportunities for the general public. These new large-scale commercial schemes have grown dramatically, generating a high degree of interest amongst investors.

Several companies have successfully attracted substantial private capital investment in agroforestry and tree plantations. This approach started with eucalyptus in Northern India in the mid-1980s and has been followed by teak plantations in Southern India, starting in the early 1990s.

Initially, these schemes involved only monoculture plantations, but were later followed by modified versions of tree plantation schemes influenced by agroforestry approaches. These so-called "commercial agroforestry investment schemes" attracted investors with promises of high returns, tax-free agricultural income after a certain maturity period, and in some cases intermediate income. For example, SK Agro Enterprises promised to double a Rs 20,000 (1 US Dollar = 26.15 Indian Rupees in December 1992) investment in vegetable cultivation near Gurgaon in the State of Haryana in only 30 months (Press Trust of India, 12 December 1992).

The agroforestry-type investment schemes offered to the public included vegetables and other horticultural crops planted along with teak, rosewood, and many other valuable tree species. In some cases, the schemes included flowers and herbal plants. Some schemes allowed investors to buy a piece of land for a stipulated price, after which the companies intended to plant vegetables and fruit trees. Not least, the companies charged a development fee from the investors for acquiring and developing the land.

The promoters of these plantation schemes continue to speak highly of the new production systems – some of which are quite similar to the traditional agroforests and orchards widely spread throughout India. They are therefore also promoted as ameliorating the environment and providing various important produce.

For example, Imperial Farmers Forestry Corporation Limited (Ltd.), while inviting investments from the public for its forestry and agriculture projects in 1994, proclaimed that it had successfully invested in seasonal crops, cash crops, fish, poultry, sheep and goats (Sunday Mail, 20 November 1994). Furthermore, the company raised hopes of generating employment for more than 10,000 people through its agroforestry program.

Parasrampurias, a 125-year-old business house in India with an annual turnover of Rs 4,000 million, started a Rs 50 million (1 US Dollar = 31.37 Indian Rupees in March 1993) capital-based company, Parasrampur Plantations Ltd., in 1993 to promote agroforestry (Free Press Journal, 20 May 1993). Trees planted by this company were to be maintained by the Agro Forestry Federation, the apex body of a tree growers' cooperative in the State of Maharashtra, which claims to have vast experience in raising tree plantations on a large scale (Khungar, 1993).

### 2. Traditional vs. commercial agroforestry

There are numerous definitions for the term "agroforestry". Bene et al. (1977) have defined agroforestry as a "sustainable management system for land that increases total production, combines agricultural crops, tree crops and forest plants and/or animals simultaneously or sequentially and applies management practices that are compatible with cultural patterns of the local population". If this definition is compared with above description of commercial agroforestry investment schemes in India, it becomes obvious that two very important components are missing in the latter: animals and a decisive role for the local population. Moreover, the agricultural crops and timber of commercial agroforestry investment schemes are produced for cash, while traditionally farmers have grown trees and crops and raised animals mainly for meeting subsistence needs. This practice of mixed farming has developed over centuries in response to specific agroecological and socioeconomic circumstances.

Agroforestry systems in the "narrow sense" have several tangible and intangible advantages – they provide food, fodder, construction material, medicinal plants, income and employment opportunities, environmental benefits, and shelter for wild animals. There is no doubt that some of these benefits, especially intangible ones, could also be generated by commercial agroforestry investment schemes. Those benefits that are important in the context of the rural economy (e.g., farm income, employment), however, do not play a major role in the new concept of commercial agroforestry. In many cases, the income generated by selling the products of commercial agroforestry investment schemes is mainly distributed amongst urban investors and promoters.

According to Dwivedi (1992), commercial agroforestry investment schemes are usually managed by private companies, corporate bodies or government institutions. Examples of such schemes include tea, coffee and cocoa under shade trees, and eucalyptus plantations for pulp and paper on agricultural land in combination with agricultural crops.

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Recently, forest-based industries have started to collaborate with farmers to grow timber on their agricultural land. This has been done to meet the demand for raw material due to dwindling supplies from government-owned forests and plantations. For example, Western India Match Company Ltd. has already entered into arrangements with farmers by providing financial and technical assistance for establishing and maintaining timber plantations on private land with assured returns to farmers. Burley (2000) has highlighted the emergence of this new trend in India during the 1990s, referring to industrial plantations that are increasingly attracting rural communities and individuals as out-growers to centralized industries.

At the same time, under the government-promoted farm forestry programs of the late 1970s and early 1980s, farmers took an interest in converting their land into (fast-growing) tree plantations for making quick returns. However, in contrast to commercial agroforestry investment schemes, farmers were directly involved in the tree-growing businesses.

Overall, it appears that using the term "agroforestry" in the context of financial ventures such as the new commercial investment schemes in India may be misleading.

### 3. Implications of Commercial AF Investment Schemes

Commercial agroforestry investment schemes can be found in the far-flung rural areas and, in some cases, in the rural areas near to cities. The agricultural land that is targeted for these schemes is often cultivable wastelands lying unused due to a lack of irrigation. They are therefore easily transferable to the investors (Manjeshwar, 9 September 1993), who either purchase the land or take it over under long-term leases. In some cases, investors manage to acquire fertile land which is sold by absentee owners or poor farmers working as laborers elsewhere.

The companies promoting these commercial investment schemes acquire the land directly from their owners or through agents. If agents are involved, the original land owners usually do not receive an appropriate compensation for their land. To entice poor farmers to sell their land, agents guarantee them permanent employment within the investment scheme. In the end, however, these farmers are often left unemployed.

An additional concern is whether or not the laborers working in the plantations are paid legal wages as per the norms set up by the concerned State Governments. Singh (1996) investigated the socioeconomic impact of plantations run by Maxworth Orchards (I) Ltd. in six villages in Raigad district, State of Maharashtra. This study revealed that laborers were paid low wages and those who sold their land to the company were not sufficiently compensated. The author also found that Maxworth was frequently confronted with strikes of their laborers. According to Nair (1979), agroforestry is "a land use system that integrates trees, crops and animals in a way that is scientifically sound, ecologically desirable, practically feasible, and socially acceptable to the farmers". As regards the latter criterion, however, given the example of Maxworth Orchards (I) Ltd., the commercial

agroforestry investment schemes of India seem not always to be socially acceptable.

There are various factors constraining farm production in India, including degraded natural resources, lack of agricultural inputs, and lackadaisical attitudes of authorities. These factors will continue to drive rural people to migrate to cities in search of off-farm employment, thus contributing to a further expansion of urban centers and an increase in socioeconomic problems. The growth of companies involved in the current forms of commercial agroforestry investment schemes may actually exacerbate this problem.

### 4. Government interventions and status quo

Many promoters of commercial agroforestry promised that their schemes would generate employment for a large segment of the rural population. The plantations would also contribute to the rehabilitation of wastelands lying unused for years. In addition, they promised to increase the overall agricultural production in the country.

However, growing skepticism about the functioning of commercial agroforestry and other plantation investment schemes necessitated the Government of India to intervene. In November 1997, a decision was made to put all investment schemes under the provision of the Securities and Exchange Board of India (SEBI) Act of 1992. As a consequence, they are to be treated as so-called "collective investment schemes"

Subsequently, all collective investment schemes were notified to file the details of their operations and apply for a certificate of registration. However, by 31 March 2000, only 37 such entities had applied for registration. A further 605 entities, which failed to make an application, were notified to close their schemes. At the same time, they were also given orders to make payment to their investors by 28 May 2000, failing which these companies were to face legal action by the Government.

One example of the serious legal action taken is the case of Golden Forests (I) Limited, Chandigarh. In 1998, SEBI filed a petition against this company, seeking to freeze its assets on grounds that it had collected a large sum of money from the public but had defaulted on promised returns. The company was brought to the High Court and directed to expeditiously sell off its assets worth Rs 4,500 million (1 US Dollar = 43.35 Indian Rupees in February 2000) in order to pay debts owed to investors (Economic Times, 21 February 2000).

Moreover, on the orders of SEBI, the remaining 37 collective investment schemes were to be rated by independent rating agencies. As a result, 34 schemes were classified to be risky investments as they appeared likely to default on their pay-out commitments (Aiyer, 2 November 1998).

As might be expected, these developments heavily affected the commercial agroforestry investment schemes since investors became reluctant to invest in such schemes. The time seems right to re-examine alternatives for developing commercial agroforestry in the context of the rural economy.

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An interesting finding is that 247 out of 605 collective investment schemes that had been ordered closed were operationally based in five major cities (Mumbai, New Delhi, Chennai, Hyderabad and Chandigarh). All these cities have a large proportion of middle-class households, which made up the main group of investors of collective investment schemes. This suggests that, in spite of their rural setup, these schemes were primarily established to attract urban capital and maximize the profit of urban promoters. The actual interests of farmers in the rural areas of India remained largely unconsidered.

### 5. Conclusions

The experiences from India have shown that caution is required in the assessment of commercial agroforestry investment schemes. The major beneficiaries are urban investors and promoters, certainly not rural people. Unlawful business practices by, and poor performance of, commercial agroforestry and other plantation investment schemes led to Government interventions resulting in the closing of almost all schemes. Nevertheless, some of the commercial agroforestry investment schemes, after meeting extensive Government requirements, continue to operate in India. Efforts are necessary to further study their development, their impacts (particularly on the grassroots levels), and their potential for boosting the rural economy by generating required capital.

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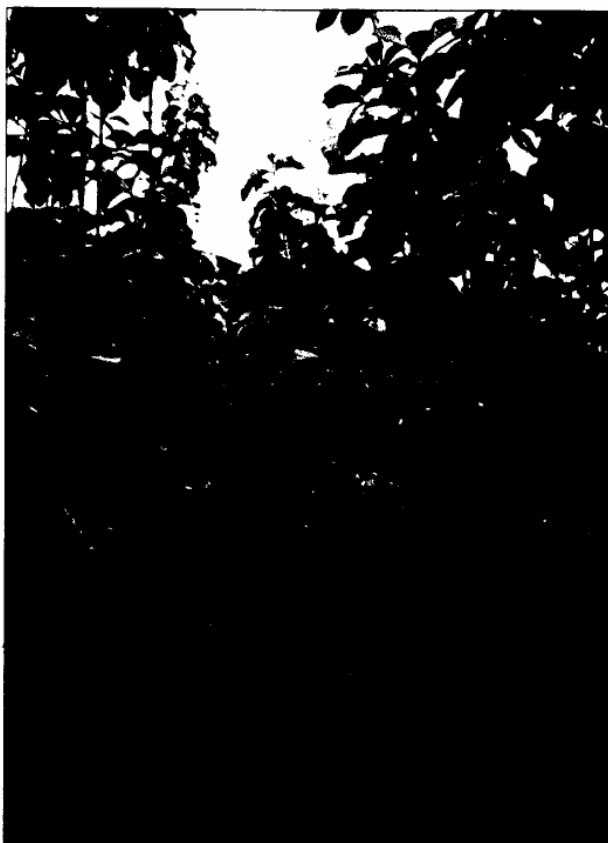
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