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JOINT REVIEW MISSION EEC/WORLD BANK CONCLUDES :

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STOP EEC DAIRY AID TO INDIA

MISSION PRODUCES VERY CRITICAL REPORT ON INDIA'S OPERATION FLOOD

The official Joint Review Mission of the EEC and the World Bank which evaluated India's Operation Flood II programme last summer, has come to the conclusion that " a moratorium on imports of dairy products is more than appropriate and deliveries of milk powder and butteroil should take place only if and when a substantial and documented deficit shows up ". According to the mission " imports of dairy products (either donated, subsidized or commercial) can, in the present situation of growing indigenous stocks, damage the strenghtening of the cooperative industry ".

These statements can be found in the Main Report of the Joint Review Mission of which the concluding 23 pages have just been released. The overall view by the mission of Operation Flood is quite critical. The report states : " The quality of achievement is quite uneven across India and the states, ranging from very satisfactory to disappointing. The situation has become very complex and very demanding in terms of rationalising present operations and building on them ".

Within the coming months the EEC has to decide, primarily on the basis of the findings of the Joint Review Mission, whether it wants to continue dairy aid to India or not. Between 1970 and 1985 large amounts (368.000 tons of skimmed milk powder and 128.700 tons of butteroil) of dairy products have already been donated by the EEC to India for it's national dairy development programme Operation Flood.

A major objective of Operation Flood was to enable ten million milk producers' families to build a viable, self-sustaining dairy industry by mid-1985. Originally this was to benefit mainly small farmers and landless laboures, who were to supply milk to the urban consumers including vulnerable groups like pre-school children, nursing and expecting mothers at stable and reasonable prices.

In 1985 the Indian government asked the EEC to continue dairy aid for another five years (1986-1990). On December 6th 1986 however the correspondent in Brussels of the Indian newspaper Economic Times, reported that " EEC food aid in support of Operation Flood can be ruled out in the view of senior Community officials here ". The article also states that " a concerted campaign earlier this year to get the community to withdraw it's support made a considarable impact on the European Parliament, whose limited powers do extend to the community's aid budget " (Annexe 2)

There has indeed been growing pressure on the policy making institutions in the EEC to phase out dairy aid to India and review the conditions under which any additional aid might be given. This pressure has on the one hand come from a number of Indian organizations, social scientists, dairy experts and others who have been criticizing many aspects of Operation Flood and it's continuing dependance on dairy imports. A campaign in Europe on this issue acquired a very broad base since the General Assembly of European Development NGO's adopted a resolution on the subject in April 1986. The primary focus of the resolution is an urgently needed reorientation of Operation Flood in favour of the rural and urban poor. In the EEC the India Committee of the Netherlands (ICN) has been particularly ac-

tive on the European Community's 'dairy-connection' with India. At the end of 1985 the ICN started the campaign 'EEC Milk Out Of India' with the publication of a campaign manifesto and a book (which has also been translated in English). The campaign is aiming to stop the vicious circle of EEC dairy aid to, and animal feed imports from India. A main point of criticism on Operation Flood itself is that the programme is largely geared to benefit the interests of middle and richer farmers and the urban middle class and elite. EEC dairy aid to India has been competing with local milk producers by depressing producer prices and interfered with the objective to make India self-sufficient in milk production.

The points for action of the campaign 'EEC Milk Out Of India' are :

- phase out dairy aid to India within two years
- no dairy aid for bottle feeding
- no aid for exotic cross-breeding
- stop EEC animal feed imports from India

The arguments put forward and the pressure exerted on the EEC by both Indians and citizens of the EEC did have effect.

In March 1986 the EEC postponed its decision on dairy aid to India, which was first to be taken in the first half of that year. The European Commission (the executive body of the EEC) first wanted a new and elaborate evaluation of Operation Flood II (1978-1985) and await the results of this before taking any further decision. European Commissioner Claude Cheysson also announced then that the EEC could not continue to give dairy aid to India on a year-to-year basis, as had been done during 1984 and 1985. He made it clear that new dairy aid to India might only be given on a multi-annual basis. This decision in fact ended the policy of tacitly prolonging dairy aid for Operation Flood yearly, while the allocated amounts of free dairy products for Flood II had already been supplied.

After March 1986 the Gujarat cooperative dairy industry, who is the market-leader in babyfood with its product Amulspray, seemed to have stopped advertizing this product thereby finally complying with the Indian National Code for Protection and Promotion of Breast-Feeding. This code was already published in december 1983 by the Indian Ministry of Social Welfare. We do not know the decision to stop advertizing commercial babyfood was the result of campaigning on the issue and/or of the fact that the National Code was to become (and has now become) a law by the end of 1986.

The above mentioned decisions by the EEC are in fact quite remarkable. At the end of 1985 it was generally expected that dairy aid to Operation Flood would be continued until 1990. The EEC had upto 1986 spread only unqualified praise about the programme and a refusal of new dairy aid would not fit in this rosy picture. Also in March 1986 however, the European Commission published an interim report on Operation Flood II. This report is still mainly positive, but the EEC also admits for the first time that the programme has a number of shortcomings.

The present report of the Joint Review Mission is far more critical than the earlier interim report. The main findings reflect in fact most of the criticism that has already for years been put forward by Indian social scientists, dairy experts, Indian Dairy Action Group, journalists etc. and by European NGO's and researchers. Besides the Review Mission has added new information and insights.

(EXTRACTS FROM THE REPORT CAN BE FOUND IN ANNEXE 1)

Probably within the coming weeks the European Commission will present a proposal to the European Parliament and the Council of Ministers from the member countries. This proposal is already long overdue, most probably because of the big interests involved (in particular the European dairy industry and the Operation Flood authorities) and the resulting pressures.

Therefore it is very important that concerned Indian and European NGO's and individuals now further strengthen the campaign to stop the export of dairy products to India and to reorient India's dairy policy in favour of the rural and urban poor.

More information can be send to you on request by :

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ANNEXE 1

EXTRACTS FROM THE REVIEW MISSION REPORT ABOUT INDIA'S OPERATION FLOOD II
ACTIVITIES (DECEMBER 1986)

(Commission of the European Communities/ World Bank)

1. MAIN FINDINGS ON THE ISSUES UNDER INVESTIGATION

1.1. An overall view

The very large ecological, structural, institutional and political differences between the various regions and States calls for separate and specific analyses in order to account for the different degrees of project achievements. In addition, on the basis of the Indian Constitution, the planning and implementation of project activities are the responsibility of State Governments and State Cooperative Federations.

In each situation, the progress of project activity implementation has been different for a number of technical, economic, institutional and political reasons. In many cases, the project achievements depend on previous constructive dairy development activities carried out by local State authorities or by other private organizations; in some cases the project advancement has been hindered by previous ill-conceived and/or poorly executed dairy development plans.

Activities and project implementation are, on the whole, more advanced in those milksheds where investments were started during Operation Flood I phase, not only because more technical and financial effort, over a longer period, was applied in organizing dairy cooperatives and milk marketing facilities, but because they were located in areas where overall conditions favoured dairy development. Notwithstanding the high standard of the operational abilities of the professional management, the planned and approved scale of Operation Flood II project was too ambitious. The increase in scale between Operation Flood I and Operation Flood II was too large in relation to the need to maintain a high level of efficiency in implementation and also the need to adapt to the very diversified situations. Although the original Operation Flood II plan was considered over-optimistic from the beginning, and revised lower targets were incorporated into the World Bank appraisal report, nevertheless the scope of the project remained quite unrealistic and very demanding upon the project authorities. Quantitative activity achievements are fairly impressive, markedly in the areas of farmers' enrollment and processing infrastructures. The original quality standards have suffered somewhat, as observation by a number of people in several places during mission field visits and discussion with project authorities have confirmed.

(1)

The quality of achievement is quite uneven across India and the States, ranging from very satisfactory to disappointing. The situation has become very complex and very demanding in terms of rationalising present operations and building on them. Major issues of research and marketing strategies are not at present given the proper organizational attention and coordination. In the struggle against rural poverty, appropriate dairy development has a role to play and a potential, according to many authoritative sources. State and Union Government dairy sector planning are at present not strong enough to coordinate efforts in tapping such a potential and to take into account the peculiarities of regional technical, economic and political situations.

1.2.2. The balance of supply and demand

1. The present situation in the cooperative and public sector shows serious problems of matching supply with demand. They have been dealt with by making so called "milk holidays" declared by the cooperative Unions (i.e. days on which the Cooperative Union plant will not collect milk from villages), unsold stocks of dairy products and possibly wastage.

The figures presented by project authorities regarding increase in procurement over the last four years have to be interpreted cautiously, as they refer to a growing number of districts from which milk is procured. Based on one identical core set of districts, the annual increase of total procurement between 1982-83 and 1985-86 is about 14%.

The temporary over-extension of existing capacity in some situations, due to the high increases of procurements, has been the result of a complex interaction of several factors, among which price policies, marketing problems and also an ill-managed policy of producer enrollment in the programme as well as the geographic extension of the area covered under Operation Flood II are more important than a substantial increase in production. Nevertheless, the phenomenon of milk holidays and surpluses is real in several districts and a solution can be found through expansion of processing capacities and marketing, including the indigenous use of commodities for recombination.

2. A dominant characteristic of the Indian dairy industry is the relatively small volume entering the formal processing and marketing sector. The modern organized sector (public, cooperative and private) controls around 11% of the total production, of which only 5% is marketed as liquid pasteurized milk. The traditional raw milk trade still represents the largest share in liquid milk marketing and, notwithstanding all its defects, it still provides an essential service to both producers and consumers. If properly organized and within reasonable proximity to most larger towns and cities it can deliver good quality milk to consumers while at the same time providing the producers with a reasonable share of the final price.

3. In the long run it would appear that overall milk production tends to grow at a slower rate than overall effective demand for milk and milk products.

4. Internal production of dairy products (SMP and butter) has reached the level that India's import of commodities for recombination into liquid milk during the lean season can be reduced substantially or terminated. Materially, at least, self-sufficiency seems close to being reached. However, the use of indigenously produced milk powder and butter for recombination would indeed have to be subsidized given the present internal pricing structure. The finance needed for the recurrent operation is more or less equivalent to the income which IDC earns out of its present financial assets as interest. As an alternative, consumer prices for liquid milk in metropolitan areas would have to be raised.

2. Genetic improvements of milk animals through the crossbreeding programme has had only limited success to date. Apart from some regions, crossbreeding as a generalized technique for yield improvements has failed due to the very special technical, structural and economic conditions needed to make it economically interesting to farmers. The crossbreeding programme has failed in not taking into account the variability of milk yield in first generation cross-bred cows at farm level. Moreover, to date, insufficient attention has been given to the improvement of the indigenous dairy cattle and upgrading of buffaloes and the seasonal variability of production has not been overcome even where substantial increases of cow milk have been obtained.

4. Technical and economic complementarity between crop and livestock activities calls for a "farm system" analysis and monitoring programme; to date absent both at project and at Government level.

5. The profitability of agricultural crops compared to milk production still appears to be higher, due either to a more favourable output/input price ratio and/or higher increases in resource productivity. At farm level, it appears that most of the food and cash crops command priority in the use of available resources (land, water and labour). The feed component in cash expenses and in the total cost of milk production is fairly high and is proportionally higher for households with little or no crop land from which to obtain roughages and crop residues.

Although strong evidence could not be collected, there are indications of a progressive erosion of profitability as cash expenses tend to increase and no major yield increases can be expected and the output/input price ratio may become less favourable.

6. Cost effectiveness exercises of input programme outlays could not be performed, mainly for lack of financial management data and, also, for want of time.

1. The technical aspects of milk procurement and collection have been competently handled in Operation Flood areas.

1.2.7. Marketing organization

1. The major problem seems to be that the present marketing organization is unable to cope with the present and future needs of milk and dairy product marketing at national level. Existing infrastructures, with the possible exception of the newly established National Dairy Cooperative Federation, are not properly designed for roles of marketing organization. A number of specific problems, such as product selection, brand name selection, research and development, organization of the retail sector, pricing etc, cannot be effectively dealt with.

Moreover, a major problem exists in the unequal strength of regional interests which enter into the present process of national marketing.

1.2.8. Prices and price policies

1. The wholesale price for milk between 1970/85 has grown at a lesser rate than the price for various other commodities. Milk prices all over India are linked to the market for preservable milk products, especially ghee. However, the price of the ghee is correlated to the price and availability of vegetable oil which, being imported in large quantities, depend upon the international market and political decisions.

Since the establishment of modern milk processing facilities owned by the Governments and later by the Cooperative sector, a new institutional force has entered the liquid milk market: milk prices to urban consumers are subject to political control.

The net effect has been a higher stability of prices both in urban and rural areas.

2. Price policies followed in various States do not allow a full coverage of the costs of collecting, processing and marketing liquid milk by the cooperative sector.

3. Consumer price increases have occurred during the last 14 years in most of the cities and towns. Still it appears that milk has become relatively cheaper than other food at retail level, at least in three of the four metropolitan areas.

This may be explained by the increased role of public subsidization, including commodity aid handled through Operation Flood II authorities.

1.2.9. Analysis of the financial statements of selected operations

1. The majority of operations were either in a break-even or in a repeated annual loss situation. With adjustment for subsidies given by

IDC practically all operations would show a loss situation, some coming into a very dramatic situation indeed. The situation applies to Mother Dairies (Delhi and Calcutta) which are trading at a special advantage according to the analysis performed.

2. From the analysis of the financial records, IDC appeared to be an extremely strong financial institution by 1985/86;

3. The financial reporting of expenditure by IDC is organized according to 10 action items and by subsection items in general. Any further disaggregation could not be obtained.

The method of accounting used by IDC is a major weakness in the control system, since it prevents internal cost monitoring and management and the carrying out of ex-post cost/effectiveness analysis.

2. STRATEGIC ISSUES IN INDIAN DAIRY POLICY AND PRIORITIES

2.1. The balance of demand and supply

1. Internal production of dairy products (SMP and Butter) has reached the level that India's import of commodities (SMP and BO) for recombination into liquid milk during the lean season can be reduced substantially or terminated. Imports of dairy products (either donated, subsidized or commercial) can, in the present situation of growing indigenous stocks, damage the strengthening of the cooperative industry. In any case, a moratorium on imports of dairy products is more than appropriate and deliveries of milk powder and butteroil should take place only if and when a substantial and documented deficit shows up.

3. In the long run, demand for milk and milk products is expected to grow annually by at least 5%.

This figure is based on an economic growth rate between 4.5 and 5% and an expenditure elasticity of demand well above 1.0. Moreover, under these conditions urban demand for milk and milk products will have a higher rate of growth. In order to avoid increasing disparities in milk consumption between rural and urban areas, various income levels and regions, adequate planning both of production and marketing has to be implemented.

To begin with, an adequate statistical apparatus for monitoring the evolution of production is greatly needed.

From a consumption point of view, a strategic issue is the question of the subsidization to "needful" groups in the population.

There are target groups in the population for which milk is considered to be indispensable (small children and nursing mothers of families below the poverty line) and for which market rates are prohibitive. Policies could be planned and implemented to give them preferential access to milk through subsidised distribution, both in rural and urban areas. However, this is a public social responsibility and Governments should take the burden of direct subsidies. Producers'

Organizations or even State plants might be asked to cooperate in implementing such policies technically but not financially.

2.2. Future planning of the cooperative industry

1. The planning of the cooperative industry should be part of - but not a substitute for - renewed and revitalized dairy planning in India, for which some principles have been indicated in the previous paragraphs. The role of State Governments in designing this overall dairy policy is crucial. The present situation in which State Government dairy policies are mainly centred around Operation Flood, creates new opportunities for a good division of labour between the State Government and the OF authorities, but it also holds dangers and biases.

Reducing the State dairy policy to only being a supplement to Operation Flood for those districts which are not covered by Operation Flood may in the long run prove to be harmful for Indian dairying. Therefore, as the Jha-Commission has suggested, finance from IDC could also be used to strengthen and support State dairy projects in non-OF areas.

2.3. The input services programme.

1. The input services programme is an essential component in the drive for production enhancement and an instrument in the organization of marketing cooperatives. Renewed attention should be given to this aspect of Operation Flood in order to take definite steps towards integration with State Services so as to achieve higher levels of efficiency.

2. Present proposals and actions already implemented by Project Authorities to decrease the organizational and financial support for the input services programme seem inappropriate and inadvisable. It seems contradictory to the main objectives of the dairy development project to undertake any action that would try to restore or achieve the economic and financial viability of Cooperative Unions and Federations by cost saving devices resulting in a lower level of input services to producers.

3. Genetic upgrading of milk animals should be oriented towards indigenous breeds which, within specific ecological regions, have proved to have a milk potential, and towards buffaloes. Specific research efforts should be directed at dealing effectively with seasonality in breeding. Crossbreeding programmes should be implemented only in those areas where climatic conditions are suitable and adequate fodder and good veterinary infrastructures are available. The social stratification of producers and their level of institutional organization should also be taken care of in order to minimize the inevitable unequalising income effects which accompany major technological changes: large farmers, with greater capital resources and ability to bear higher risk, may derive undesirable advantages from the technical change.

4. On feeding, improvements should come from the commercial exploitation of all the techniques already developed for improving the intake and digestibility of crop residues, such as the Urea/molasses block and the ammonia and sodium hydroxide treatment. Competition of milk production with food production should be carefully avoided.

6. Consolidation and strengthening of existing village societies and milksheds must be given precedence over expanding into new areas.

7. In the planning of production by State Governments, adequate attention should be given to the production enhancement programmes for areas not considered in present and future project plans: NDBB technical assistance and IDC financial support may be considered, even with an innovative and more appropriate institutional and technological framework for both milk production and marketing.

8. As a general criterion, milk should be produced as near as possible to the centres of demand. Long distance transport of liquid milk, now an established and somewhat necessary practice, should be re-examined, taking into account open and indirect subsidies which make the procurement from long distances not only technically but also economically a viable proposition. Special care should be taken so as to avoid unfair competition with local producers.

The Eastern region can claim special attention in this respect. The input programmes and a selective regional policy in their financing might play an important role in this area by contributing to counter-balance the forces acting towards more regional inequalities in Indian economic development.

7. In marketing, it might also be advisable to pursue alternatives which would be more labour intensive, but still maintaining high quality standards. Raw milk can be effectively marketed by cooperative organizations near towns to the full satisfaction of consumers and producers. Moreover, traditional Indian milk products including ghee, home made in rural areas, can enhance employment.

8. The presence of institutionally alternative organizations in the commercialization of liquid milk and dairy products should not be discouraged. Elements of competition to the organized cooperative sector can help the development of the dairy industry.

2.7. Dairy development and poor producers

1. Any attempt to reach specific target groups of poor milk producers through projects for dairy development is a difficult undertaking. An important problem is the integrated nature of the constraints facing the landless milk producer: lack of access to feed resources, poor quality of milch animals, lack of cash for expenses (veterinary aid, cattle feed, A.I. etc.) and low productivity form a vicious circle of poverty, from which it is difficult to break out.

2. It appears that non-governmental, voluntary organizations can help through - what may be called - pre-cooperative work to improve these conditions through organization, education, credit and close monitoring of progress. The new approach of the Seventh Plan with respect to the involvement of voluntary agencies in IRDP and related programmes should therefore be welcomed. However, these organisations often cannot provide marketing opportunities. Integration of their efforts within a broader framework of planning of infrastructural and institutional facilities is therefore necessary. Operation Flood, together with state planning, can contribute to this goal.

3. Moreover, credit for the acquisition of milk animals should be considered in the coordinated planning of cooperative development. IRDP projects and marketing infrastructure provision.

2.9. Women and dairy development

1. The preponderant role of women in the actual work involved in dairying raises the important question to what extent improvement in the Indian dairy sector can serve also the much desired goal of improving the status and opportunities of women in rural India. The mission has witnessed some of the activities carried out by the Cooperative Federations and supported by Operation Flood II project, and could document the attention given by the Project authorities to the question of promoting the women involvement. Nevertheless the male dominance in the organization and implementation of the Operation Flood programme is a feature which makes this project no different from many other Indian programmes. There are indications of the danger that - as dairying acquires more public status and brings in more cash income - women will be participating less in the ensuing benefits. This is due to the somewhat traditional attitude with which the men automatically take on public responsibilities in the place of women.

2. These patterns and trends will have to be counteracted vigorously at all levels, from the village cooperative, to the Union, Federation and up to the project authority level.

One method for the improvement in the position of women is to institutionalize and actively promote women's participation as members of a cooperative, as members of the Boards of Union, Federation, IDC, NDBB, MDCFI.

3. The major goal is to make sure that the changes brought about by Operation Flood do not affect the relative position of women negatively, but positively. Innovative action is necessary for this. Experience proves that unless women are elected to key-positions, this action will rarely take place. The mission could recognize that an essential role has to be played in this development by various women's organisations.

ANNEXE 2

Economic Times 6-12-1986

EEC aid under,

Operation Flood ruled out

FROM MALCOLM SUBHAN

BRUSSELS, December 5.

EEC food aid in support of Operation Flood Three can be ruled out in the view of senior Community officials here. A formal decision is still awaited, however, and will be taken only after the report of the joint EEC/World Bank evaluation team has been received, which should be a day or two.

One of its main findings reportedly is that milk production now exceeds demand. Given this surplus, further deliveries of skimmed milk powder and butter oil are unnecessary, according to officials here.

However, there is a willingness to look at other forms of support for Flood Three, such as infrastructure investment, and food aid for similar projects in other areas. A flood-type programme for vegetable oils has been mentioned in this connection, but the EEC needs firm proposals.

Operation Flood itself has been severely criticised by some European voluntary organisations. They maintain that its main beneficiaries have been rich farmers and the urban middle class.

A concerted campaign earlier this year to get the community to withdraw its support made a considerable impact on the European Parliament, whose limited powers do extend to the community's aid budget.