

DEVELOPING A REGIONAL SMALLHOLDER DAIRY STRATEGY FOR ASIA

THE CHALLENGE TO WORKSHOP PARTICIPANTS

David Young, Consultant in Agriculture and Rural Development
PO Box 1823, Burnside, SA 5066, Australia
Tel: + 61 8 83384853 Mobile: + 61 403 884332 Email: dfyoung@tpg.com.au

1. OVERVIEW

1. The task of formulating a smallholder dairy strategy for Asia is indeed a major challenge, and FAO, CFC and APHCA should be congratulated for supporting this initiative. The timing could not be better. After more than half a century of declining real prices for dairy products, there are signs of a structural change in the dynamics of the global dairy sector. This change may overcome one of the long-standing constraints to smallholder dairy development – low prices and profitability – and stimulate commercial incentives to connect farmers to markets. Of course no one knows whether the recent upsurge in prices will persist, but the signs are certainly more encouraging than they have been for many years.

2. There are other reasons for optimism too. Asia is home to a large and rapidly growing population of affluent consumers with either a strong tradition of dairy consumption, or changing food preferences in favour of high value animal products including dairy products. In most countries there is plenty of room for import substitution provided that local products are competitive in quality and safety. There is a vibrant private sector ready to capture commercial opportunities to intermediate between producers and consumers. Moreover, smallholder dairy development provides opportunities to address the persistent problem of rural poverty by transferring income from affluent urban households to their poorer rural counterparts, and improving food and nutritional security for poor rural and urban households.

2. THE CHALLENGE

3. As challenging as formulating a regional strategy may seem, it is not the major challenge facing this workshop. Given all the excellent preparatory work that has been undertaken, I am confident that the workshop will succeed in articulating a relevant and robust strategy. The real challenge will emerge when you return to your home countries and proceed to adapt the strategy to your own situation, and implement it. I am sure all of us are aware of beautiful strategies that are never implemented. We must be determined not to let this happen here. The challenge therefore is to craft a strategy that will be implemented for the benefit of Asia's millions of actual and potential smallholder dairy producers, and the consumers they supply.

4. Whilst not wishing to pre-empt the workshop deliberations, I would like to introduce a few ideas which may catalyse our thoughts on the characteristics of a relevant, robust and implementable smallholder dairy strategy for Asia:

- **Think Globally, Act Locally:** The smallholder dairy sector is part of a global industry, even though the connections may be tenuous in some cases, and has to be globally competitive in a world of declining trade barriers. However, strategies will be implemented at national and local levels, and a “one size fits all” approach will not work, given the vastly different circumstances prevailing across the Asian hemisphere. The regional strategy must therefore be framed in such a way that national and sub-national strategies can be nested within it.
- **Focus on the Long Term:** Robust and durable strategies need to be based on the long term fundamental characteristics of the sector and its exogenous influences. It is easy to be distracted by current events and issues, and overlook some of the long-term fundamentals which need to be addressed if the strategy is to be implementable and sustainable. At the

same time strategies need to be able to make tactical changes to adjust to changing circumstances as they unfold.

- **Consider a Wide Range of Scenarios and Options:** Strategies which are based on an assumed set of circumstances are very risky. It is preferable to consider a range of possible scenarios (covering eg, climate change, consumer preferences, trade policy reform etc) to explore the critical uncertainties and consider the options for dealing with them. This will help in formulating a strategy which remains relevant under a range of circumstances as they unfold across the region and flexible enough to allow incorporation of any new externality.
- **Design for Impact:** The regional strategy is not about cows, it is about people; in particular the millions of rural poor for whom dairy development can present a lifeline to haul them out of poverty. In evaluating strategy options we should therefore make it clear who are the intended beneficiaries, and how their livelihoods will be affected by the proposed interventions.
- **Avoid Over-Prescriptive Blueprints:** Given the enormous diversity of climatic, economic, market, regulatory and social environments across Asia, it would be unwise to adopt an over-prescriptive strategy. Rather, it would be best to describe the full range of available instruments for smallholder dairy development and the circumstances under which they have the best chances of success. Individual countries, programmes and projects can then select from this menu of options according to their circumstances and level of available resources.
- **Don't Overlook Financing Needs:** Dairy development, even at smallholder level, is unavoidably capital intensive in comparison to other forms of animal production. The investment needed to create a one or two cow unit is beyond the capacity of most poor rural households. The Asian and country strategies should therefore incorporate a financing dimension, recognising that strategies requiring on-going donor support will not be sustainable.
- **Consider the Enabling Environment:** Smallholder dairy development can be successful under a wide range of situations, but only if the approach is tailored to the prevailing circumstances. It is vital to consider the key features of the enabling environment such as: transport infrastructure, electricity and water supply, financial services, animal husbandry practices, production systems, extension and animal health services, telecommunications, the regulatory environment, institutional support, market linkages, and many other factors. This point is related to the need to nest national and sub-national strategies within the regional strategy.
- **Adopt a Demand Led Approach:** Growing consumer demand is the engine of Asian dairy development, but consumers are better informed, becoming much more discriminating in their tastes and more demanding of quality products. This can see smallholders sidelined in favour of industrial scale operations who are able to satisfy consumer demands for product quality, safety, convenience and consistency. Any regional strategy must therefore consider what consumers want and are prepared to pay for, and identify market niches where smallholders can be competitive against larger scale commercial operators.

3. SMALLHOLDER DAIRY IN THE BROADER DEVELOPMENT CONTEXT

5. Smallholder dairy development can be seen as an enterprise-driven approach to livelihood enhancement and an instrument of rural poverty reduction. It is not an end in itself. In this regard it is worth thinking about dairy development as part of the rural poverty reduction agenda which has

recently been re-invigorated in the 2008 World Development Report¹ (WDR) which adopts agricultural development as its theme for the first time in 25 years. If we look through the report and substitute the word “dairy” for “agriculture” it presents some very interesting strategic ideas which this workshop might reflect upon.

6. First, there is the title of the report, “Agriculture for Development”. Why not “Dairy for Development (D4D)”? This focuses the agenda on people, not milk and cows, and that is a much more saleable vision of the future when it comes to procuring the necessary resources. WDR 2008 focuses on ways to generate rural jobs by diversifying into labor-intensive, high-value agriculture linked to a dynamic rural, nonfarm sector. Smallholder dairy development is an ideal way to achieve this outcome. It is consistent with the concept of a “new agriculture” of high-value products, entrepreneurship and jobs in the emerging rural, nonfarm economy.

7. WDR 2008 poses three key questions, which if applied here, would be as follows: (i) What can smallholder dairy do for development? (ii) What are effective instruments for using D4D? and (iii) How can D4D agendas best be implemented? If this workshop can provide answers to these three questions it will have done a great service to the rural poor of Asia.

8. WDR 2008 also recognises that agriculture operates in three distinct worlds: (i) subsistence agriculture-based; (ii) transforming; and (iii) urbanised. In each, the D4D agenda differs in pursuing sustainable growth and reducing poverty. Most of the countries involved in this strategic process are in the transforming category, but also have sub-national regions in the other two categories. In transforming countries, rapidly rising rural-urban income disparities juxtaposed with extreme rural poverty are major sources of social and political tensions. Addressing these disparities requires a comprehensive approach that pursues multiple pathways out of poverty - shifting to high value agriculture, decentralising nonfarm economic activities to rural areas, and providing assistance to help move people out of agriculture. Here again dairy development is one of the attractive options. In urbanised regions D4D can help reduce remaining pockets of rural poverty if smallholders become direct suppliers in modern food markets and good jobs are created in agriculture and agro-industry.

9. Defining a D4D agenda for each country type (agricultural, transforming and urbanised), requires a combination of four policy objectives: (i) improved access to markets and establishment of efficient value chains; (ii) enhanced smallholder competitiveness and facilitation of market entry; (iii) improved livelihoods in subsistence farming and low-skill rural occupations; and (iv) increased employment in agriculture and the rural non-farm economy, and enhanced skills. This suggests that each country should formulate a D4D agenda with the following characteristics:

- **Established Preconditions:** Without social stability, adequate governance, and sound macro fundamentals, few parts of a dairy development agenda can be effectively implemented.
- **Comprehensive:** The agenda should combine all four policy objectives, depending on country context, and specify indicators that help in monitoring and evaluating progress toward them.
- **Differentiated:** Agendas differ by country type, reflecting differences in priorities and structural conditions across the three agricultural worlds. The agendas must be further customised to country specifics through national D4D strategies with wide stakeholder participation.
- **Sustainable:** D4D agendas must be environmentally sustainable both to reduce the environmental footprint as well as to sustain future growth. In order to be commercially sustainable key elements of the enabling environment need to be identified and put in place.

¹ World Bank: “World Development Report 2008: Agriculture For Development” Downloadable from www.worldbank.org

- **Feasible:** To be implemented and have significant impact, policies and programs must meet the conditions of political feasibility, administrative capacity, and financial affordability.

10. D4D opportunities in Asia appear to be strongest in the countries or parts of countries which are in the transformational stage. With growing political attention to widening income disparities, there are many opportunities to better use dairying as an instrument for development. Because of demographic pressures and land constraints, the agenda for transforming countries should consider jointly mobilising all pathways out of poverty including dairy farming and employment in non-farm dairy enterprises. Prospects are good in view of expanding markets for high-value food products, offering an opportunity to diversify farming systems and develop a competitive and labor-intensive smallholder dairy sector. However, it needs to be recognised that there are also many circumstances where dairy is not the best option, so that available resources can be concentrated in situations where the prospects for success are best.

4. CONCLUSIONS

11. The challenge for this workshop is to formulate and implement a D4D strategy which is robust under a range of varying and unpredictable circumstances, adaptable to the special situation in each country, and flexible to allow adaptation to evolving circumstances. This will require a combination of long-term vision and detailed awareness of the realities in each country. We are fortunate indeed that FAO, CFC and APHCA have taken the initiative to assemble such an impressive array of expertise, with a deep understanding of the many lessons learned from previous D4D interventions. Our challenge is to use the lessons learned from the past to draw an implementable roadmap for the future with an unwavering focus on the needs of Asia's rural poor.

ATTACHMENT: POSSIBLE ELEMENTS OF A SMALLHOLDER DAIRY DEVELOPMENT STRATEGY FOR ASIA

1. A **description** of the key characteristics of the smallholder dairy sector in Asia including the features which differentiate it from other regions. Most of this information should come from the country studies and other meta studies of the sector. The descriptive information should include cover areas such as:
 - Historical background
 - Production trends
 - Consumer demand
 - Trade in dairy products
 - Regulatory framework
 - Institutional framework
 - Development constraints and opportunities, etc, etc.
2. **Strategic objectives:** what are we trying to achieve? Improved smallholder incomes, better nutrition, reduced dependence on imports etc. or some combination of these. Since it is a regional strategy these should be high order objectives. Some differentiation by country may be necessary because of the very large differences.
3. **Key issues and options.** This can be based on a SWOT analysis of the dairy sector in each country and for the region as a whole. It should reach a conclusion on a small number of options from which to choose, and the criteria for making a selection. The final part should be a statement of the preferred option and the reasons for its selection.
4. **Description of the strategy.** This is probably best done in logframe format allowing for succinct statement of objectives, outputs, inputs etc, the indicators of achievement, and the various programmes and projects to be implemented in order to implement the strategy. The major elements of a regional strategy should include items such as:
 - Production technologies and productivity
 - Approach to market development
 - Legal and regulatory aspects
 - Institutional support
 - Training needs
 - Financing strategy
 - Role of the private sector
 - Risks and risk mitigation strategies
 - Sustainability
 - Monitoring and evaluation
 - Benefits, costs and economic impact
 - Social and environmental impacts, etc, etc.
5. **Implementation plan.** This should present a time bound action plan for implementation of the overall regional strategy, and the country programmes for each participating country. This should be presented in a form that can be used to seek financing from international and domestic sources.