

PAPER 3

The Role Of Smallholder Cooperatives and Networks

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The context

Smallholders in Pakistan are defined as those with less than 5 hectares (12.5 acres) of farmland. According to this definition, in 2010 there were 7.5 million smallholders households involving 56.4 million people, or 87% of all individuals in farm households. Many of these farmers are subsistence or marginal farmers who are either not connected with markets on a regular basis or are disadvantaged because of the multitude of constraints facing them in accessing markets, formal credit, farming inputs, technologies and extension services.

Demand for horticultural, poultry and dairy products is increasing rapidly as a result of growing incomes and rapid urbanisation in many developing countries, including Pakistan. Meeting this demand requires further increases in production of these commodities, requiring in turn increasing productivity in these sectors by harnessing the economies of scale to enable farmers to apply new technologies and utilise the results of agricultural research and development.

At the same time, supply chains for these products are rapidly being transformed by the growth of urban supermarkets chains that directly procure large quantities of fresh milk, fruits and vegetables. Premium is paid in these markets for timely delivery of consistently high quality goods. Indeed, in some cases, supermarket chains are engaging in contract farming to procure supplies directly from farmers to by-pass traditional market intermediaries.

This changing landscape of dairy and horticultural products poses certain challenges for the future of smallholder farmers. Some experts believe that smallholders will find it difficult to successfully engage in the new supply chains and would need to exit out of agriculture. Others argue, however, that that smallholder agriculture is more efficient in labour incentive farming (such as livestock and dairy, horticulture, and poultry) because the use of family labour minimises the cost of supervision, and suggest that smallholders can also harness economies of scale by adopting new organisational forms, such as cooperatives, networks and contract farming. This latter view is based on both theoretical and empirical support from the successful experience of many developing countries in this regard. Ahuja *et al.* (2012) believe that various forms of collective action can improve market access and productivity of smallholder producers by enhancing their bargaining power in the markets, by creating new opportunities for improving their management skills, and by facilitating access to higher quality and more reliable inputs and services. These

Policy issues

- Would smallholders' cooperatives (e.g., for marketing, securing credit, or extension services) be helpful in uplifting the production and profitability of smallholders in livestock and dairy, mango and citrus subsectors?
- How should such cooperatives be developed on a sustainable footing?
- Should the national government initially select a few pilot projects for learning by doing before adopting the successful model more widely?
- How should all stakeholders (e.g., farmers, NGOs, universities and international agencies) be involved in the development and management of cooperatives?
- Would it be worthwhile to consider the recommendation of the Panel of Economists (Planning Commission 2010) for establishing a Smallholders Development Corporation?

authors cite several models in the Asian countries for smallholder networks, including the Dairy Development Zones in the Philippines, the Anand model in India, the strong role of cooperatives in Thailand and Bangladesh, the third party milk collection stations in Inner-Mongolia/Heilongjiang (China), and the strong dairy development through government support (down to local levels) in Vietnam that is supported by privatisation of markets.

The Working Group on Agricultural Market Infrastructure and Post-harvest Management (Planning Commission 2009) was also critical of the lack of progress in Pakistan in respect of farmers' cooperatives and recommended that the successful model of Nestle in Pakistan and Amul in India should be studied and adopted for developing more farmer cooperatives. Many experts agree that farmers' cooperatives can reduce costs of compliance with SPS requirements and increase the knowledge of smallholders about markets, prices, credit availability and on-farm best practices. Indeed, some even suggest that knowledge of SPS requirements should be propagated among farmers, handlers and across the entire supply chain through cooperatives (e.g., Thapa 2009). For the supermarket chains, dealing with a large number of smallholders for quantity and quality of milk would be a costly exercise, but dealing with the same group through a cooperative would be a lot less expensive. This saving in transaction costs creates a powerful incentive for supermarkets to also become involved in promoting the formation and sustainability of farmer cooperatives.

Need for Government support

However, this is unlikely to happen in the absence of explicit policy support and public investment in marketing infrastructure and in the provision of technical and business advisory services. As emphasised by Hazell *et al.* (2007), if smallholders are to survive and prosper, the governments must support them in joining modern supply chains and to obtain farming inputs, credit and technical knowledge.

Staal *et al.* (2008) note two successful cases in Pakistan, one that started in the public sector and the other in the private sector. The first case was a dairy development project that was started in 1983/84 in Punjab under a joint project run by the Punjab Provincial Livestock Department and the German Technical Co-operation programme (GTZ). The project promoted adoption of improved breeds through AI, improved fodder, health improvement, and milk collection and processing for the urban market. In 1992, the project formally became a farmers' cooperative under the Societies Act of 1980 and was named *Idara-e-Kissan* (IK). The cooperative society started its development and operational activities under the *Halla* Union Council and later used 'Halla' as the trade name of all its milk products. The IK is said to be a major force in Pakistan's pasteurized milk market. The second case refers to the initiative of Nestlé (Pakistan), a subsidiary of the multinational Nestlé, which dominates the UHT milk market in Pakistan.

In recent years, the Pakistan government has implemented several initiatives, some of which are directed at supporting the livelihoods of landless tenants and smallholders. These include: the distribution of government land to landless tenants; the distribution of livestock to landless tenants and smallholders; the establishment of the Livestock and Dairy Development Board (LDDDB), the Pakistan Dairy Development Corporation (PDDC), the Punjab Livestock and Dairy Development Board (PLDDDB); the introduction of the Benazir Zarei (Agriculture) Card Scheme to support small farmers by easy access to funds by using this card as an ATM Card; and the Disaster Management Support following the floods in 2010 and 2011.

Field study (preliminary) findings

Our field studies in Punjab and Sindh do not indicate, however, that the smallholders' plight has improved. A dearth of farmers' associations is revealed by these studies. At the same time, however, the field studies revealed heavy reliance on informal lending among farmer households at zero interest rate within the villages. This demonstrates that local community spirit and solidarity is high. Farmers' associations and cooperatives are more likely to emerge in this type of environment when local groups have to interact with one another, both spatially and up and down the supply chains. This strong interaction may be an indication that the ground is ready for progressing towards formal

cooperatives if the initial Government support and leadership is forthcoming.

Dairy cooperatives in India

Like Pakistan, smallholders also dominate milk production in India. These small farmers traditionally did not have access to organised markets. The development of dairy farmers' cooperatives has proved to improve their access to milk markets. Amul is the biggest dairy cooperative in India, based in Anand (Gujarat). Starting with two village societies and 247 litres of milk collection per day, the movement grew and, in 1973 the Gujarat Cooperative Milk Marketing Federation (GCMMF) was established as an apex organisation responsible for marketing the milk and milk products of cooperative unions in the state of Gujarat. In the 1980s, the word Amul was converted into a brand. Currently, in the state of Gujarat, Amul produces 10.16 million litres of milk daily, which is collected from 2.7 million farmers, processed through 30 dairy plants, and distributed through 500,000 retail outlets. The Amul model became so successful that it was replicated in the 1970s, after the government recognised the importance of milk cooperatives as a means of promoting socio-economic development in rural areas while simultaneously increasing milk production in India. The National Dairy Development Board (NDDB) launched the Operation Flood program (OF) in 1970 to create a nationwide milk grid. Since then, an eleven-fold increase in the number of dairy cooperative societies and an eight-fold increase in their membership have been recorded. In 2010, cooperatives had about 14 million farmer members, including about 4 million women, spread over 140,227 village cooperative societies in about 350 districts. During this period, annual milk procurement by cooperatives increased more than ten times, from 935,000 tonnes to 9,441,000 tonnes. Milk procurement by cooperatives accounted for about 3 per cent of total production in 1980-1981. In 2010, milk procurement by cooperatives accounted for 8.4 per cent of the milk production, and about 15 per cent of the marketed milk surplus.

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