

Overview

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Sustained economic growth, rising per capita income, growing urbanisation and globalisation are changing the consumption pattern in favour of high-value and processed food commodities in South Asia. The change is following two conventional steps: (i) income-induced diet diversification, which is a result of economic growth and rising per capita income, and (ii) diet-globalisation, which is influenced by urbanisation and globalisation. As a result, the domestic demand for high-value commodities¹ in South Asian countries has grown 3-5 per cent per year, while demand for foodgrains is stagnant. In addition, the export of high-value agricultural commodities is growing due to better incentives for exports and changing demands in importing countries. These trends will have a profound impact on agricultural production, marketing, processing, and retailing environment.

The farming community, particularly the smallholders, can take advantage of such a demand-driven revolution in high-value and processing sector. But the smallholders' basic instincts are to be self-sufficient in food. The majority of them mainly rely on the grain-based system for their food security and source of income. But the opportunities to augment income through the grain-based system are ceasing due to fatigue in grain-based technologies. Attractive alternatives are available in production of high-value commodities. Tiny pieces of land and low marketable surplus of smallholders constrain them to leapfrog from grain-based system to high-value agriculture. Though, the high-value agriculture suits the needs and resource endowments of smallholders; they yield higher and regular

1. High-value commodities in this book are denoted as a group of commodities like fruits & vegetables, milk, meat, poultry, fish, etc.

returns and are labour-intensive; the main constraints in this transition are related to market risks, poor access to credit and high food safety and quality standards. Smallholders are risk-averse. Therefore, involving smallholders in this transition and linking them with agri-business is a major policy challenge for policymakers in South Asia.

Involving smallholders in agricultural diversification towards high-value commodities requires a favourable environment that strengthens farm-firm linkages, and integrates domestic and global markets through appropriate policies. The role of innovative institutions and appropriate infrastructure is critical to involve smallholders in reducing their risks and transaction costs, provide information, arrange credit, and promote appropriate compliance measures for SPS requirements. Cooperatives, contract farming, corporate farming and forward markets are some institutional arrangements of vertical coordination that are linking smallholders and agri-business. East and Southeast Asian countries have developed institutions that involved smallholders and accelerated the speed of agricultural diversification. South Asian countries are silently adapting innovative models but at a very slow pace. The need is to replicate the successful models of institutional innovations to harness the emerging opportunities in high-value and processing sector.

It is clear that the demand for high-value and processed commodities will increase at a fast pace. Important questions which need to be answered include: (i) Is agricultural diversification taking place at a speed required to meet the changing demand? (ii) If not, what policy and institutional changes could accelerate the process? and (iii) How can smallholders benefit, given their inherent limitations? The book attempts to respond to these issues by addressing a wide range of topics emerging in agricultural diversification in South Asia. The important ones discussed include: (i) The nature and speed of agricultural diversification. (ii) How the consumption pattern is changing? (iii) How innovative institutions are evolving to integrate production, marketing and agro-processing? (iv) The critical role of sanitary and phyto-sanitary (SPS) issues for effective participation in global trade. (v) How smallholders can be empowered for participation in agricultural diversification through access to credit and information?

The book is divided into six Parts. Part I provides an overview on agricultural diversification and smallholders in South Asia. After a brief introduction, this Part presents a synthesis of all chapters and presents the profile of agricultural diversification and smallholders in South Asia. Part II covers the nature of agricultural diversification in South Asia. The term agricultural diversification denotes a shift in consumption and production in favour of high-value commodities—fruits, vegetables, milk, meat, poultry, fish, etc. Agricultural diversification is surging in South Asian countries in response to the changing consumption patterns in an era of globalisation. It is largely influenced by the slowing demand for cereals, increasing demand for high-value commodities, falling agricultural prices, opening trade liberalisation, changing role of governments, liberalisation of capital flow, increasing availability of advanced technologies, expanding role of the private sector, improving supply-chain integration and improving infrastructural development. Access to improved technology, reliable and timely information, efficient input and product markets and effective institutional credit, are some of the key drivers that shift the production portfolio towards high-value commodities. Agricultural diversification is emerging as an important strategy to alleviate poverty in South Asia. The high-value commodities are more labour-intensive and generate more employment and income opportunities, which eventually ensure household food security and alleviate poverty.

Part III covers country-specific case studies on agricultural diversification—one each from Bangladesh, India, Nepal, Pakistan and Sri Lanka. Production of high-value commodities has markedly increased in South Asia during the last two decades. Case studies, however, reveal that policy support towards agricultural diversification has received lukewarm response in most of the South Asian countries because raising grain production remains the primary concern for achieving food self-sufficiency. The countries also lack infrastructural and institutional support that is critically needed for promoting agricultural diversification.

Part IV documents the necessary conditions to promote agricultural diversification for effective participation in the global market, in particular, strengthening of farm-firm linkages and improving product quality. The first issue calls for strengthening the

vertical linkages between production, markets and agro-processing through appropriate institutional support. The latter issue pertains to WTO regulations on non-tariff barriers. Specific case studies on farm-firm linkages through contract farming for poultry, vegetables and milk demonstrate that such arrangements improve farmers' access to information, markets and technologies that substantially reduce transaction costs and minimise risks in production and marketing. In this context, innovative marketing and sourcing strategies and food-safety related issues are also emerging through the rise of supermarkets and retail food chains. Similarly, agro-processing, particularly in the non-foodgrain sector, is expanding dramatically in India as a result of economic reforms. But the agro-processing industry is restrained due to high taxation, legal hassles and its small-scale status. Sanitary and phyto-sanitary (SPS) issues are also critical for effective participation in world trade.

In Part V, it is argued that smallholders need to be empowered for effective participation. Processes that can facilitate access to information and institutional support could go a long way in involving smallholders in agricultural diversification, including: (i) NGOs and the private sector to promote agricultural diversification, (ii) information and communication technology (ICT) to empower the farming community, and (iii) financial institutions to strengthen the forward and backward linkages. Case studies illustrate the evolution of innovative institutions and their processes for strengthening farm-firm linkages.

In the last Part policy directions are suggested for promoting agricultural diversification in South Asia. Since food self-sufficiency has been achieved, a greater thrust needs to be targeted towards non-cereals so as to harness the opportunities thrown open by the World Trade Organisation. This requires higher investments in infrastructure, amendments in age-old acts, evolution of innovative institutions and modification in R&D priorities. Focus is also needed on tuning finance and insurance sectors.

Diversification has been and will continue to be demand-driven. However, the policy environment should facilitate the changes in such a way that smallholders can take advantage of the opportunities to deal with the potential production and price risks and the high transaction costs due to small pieces of land, meagre marketed

surpluses, and perishability of commodities. Accelerating the speed of transition of agricultural diversification, involving smallholders effectively and genuinely in the process, and sharing the benefits with them are major policy and development challenges in South Asia.

The book is a rich source of analytical information on agricultural diversification in South Asia. It covers a wide range of issues and provides policy perspectives with a view that smallholders can benefit from these emerging opportunities. It should be useful to policymakers in visualising the significance of agricultural diversification as an effective strategy for increasing incomes, generating employment, alleviating poverty, and improving sustainability of agricultural systems.

