



*European Communities
Commission
Background Report*

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OPERATION "FLOOD"

Community aid for self-help scheme in India

Summary

The Indian Government is preparing to launch the second phase of Operation Flood, an enormous multi-annual rural development project intended to improve the living conditions of some 10 million families engaged in milk production.

At its meeting on April 25, 1978, the Council of Ministers agreed to a Commission proposal* to assist this scheme as part of an on-going programme. This was a departure from the Community's usual practice of commitment on a year to year basis.

The Community contribution will be in kind, in the form of skimmed milk powder and butteroil. The scheme is novel, however, because the aid will not be used just for emergency feeding, but to promote rural development in the longer term. The scheme, therefore, offers an excellent example of development co-operation.

Origins and progress

Operation Flood was started by the Indian Government in 1970 as a five-year programme to promote rural development. The aim was to develop the dairy sector, improve the quality of milk and increase the income of producers, mainly by increasing milk supplies to four major cities, Bombay, Calcutta, Delhi and Madras.

The initial project had to be extended by two years, but by 1977 it had largely achieved its aim. Milk supplies improved to the cities, and living conditions improved for almost a million families engaged in milk production, while their incomes increased by between 50 and 100 per cent.

In addition an efficient dairy system has been created based on co-operatives, co-operative unions and federations. The scheme has excited enthusiasm at all levels, from the farmers up to government.

The Indian government now has ambitious plans to expand the scheme, and has asked the World Bank and the European Community for help.

* COM (77) 541

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Part of the Community's general food aid to India between 1970 and 1976 was allocated to the first stage of the project. The Indian government has now asked for more precise arrangements. It has requested 186,000 tonnes of skimmed milk powder and 114,000 tonnes of butteroil to cover the first six years of its seven-year programme designed to run from July 1978 to June 1985. This would work out at an average of 31,000 tonnes of powder and 19,000 tonnes of butteroil a year.

Aims of Phase II

The second stage of Operation Flood is expected to cost about \$550 m, aided it is hoped, by a World Bank loan of nearly \$200 m (36 per cent). The rest of the money is to be raised from funds derived from food aid (49 per cent) and from the first phase of the project (15 per cent).

As a result by 1985 the Indian government hopes:

- to improve the living conditions of 10 million families through the creation of an efficient dairy industry capable of processing 13 million litres per day in addition to the present 6.4 m litres;
- to create a distribution network covering 142 towns with a total population of 150 million people;
- to create an efficient dairy industry, including an artificial insemination system, the production of vaccines, and so on;
- to provide a balanced diet by means of an adequate supply of milk and milk products (estimated at 180 grammes - about 6 ozs - per person per day).

The Indian Dairy Corporation will be the Government's executive agent for the scheme.

Role of food aid

It is the constructive use of food aid that makes the scheme novel and exciting, and which makes the Commission hopeful that other developing countries will follow India's example.

The basic aim is to expand the local market for milk and milk products and the use of food aid has been carefully planned to fit in with this purpose.

Thus the imported skimmed milk powder and butteroil will go into a central pool - managed by the Indian Dairy Corporation - which will also receive local produce. The pool will be used during periods of low production, such as the monsoon season. Some of the powder and oil will be used for the manufacture of infant foods (with cereals and sugar) which will be distributed free to over a million and a half mothers and children.

The butteroil will also be sold on the domestic market to offset the country's shortage of edible oil, together with reconstituted liquid milk. It is hoped to raise about \$270 m from these sales - roughly half the cost of the project - which will be ploughed back by the Indian Dairy Corporation to the dairy federations in the form of grants or loans. Repayments will go into a fund to provide working capital for projects to be undertaken by the milk producers.

The Community contribution

The Indian scheme, and therefore the Community contribution, rests on a financial contribution from the World Bank, which is expected to make a favourable decision on this matter in June.

The Community has, however, already decided on a 1978 contribution of 6,000 tonnes of skimmed milk powder and 3,500 tonnes of butteroil as a first instalment. Assuming the scheme goes ahead, the Community proposes that the annual commitment over the first six years of the plan - by which time the Indian government anticipates that all needs will be met from local production - should be set at an annual average of 31,000 tonnes of skimmed milk powder and an annual average of 12,700 tonnes of butteroil.

The butteroil commitment is rather less than the Indians had asked for (an average of 19,000 tonnes a year) but is as much, the Commission estimates, as can be offered by the Community if other claimants in the developing world are not to suffer. This does not apply to the skimmed milk powder, providing that in this sector the Community annual food aid programme is maintained at 150,000 tonnes.

The Commission estimates that the cost of the scheme to the Community, including transport to Indian ports, will be 83.57 million European units of account (approximately £56m) in 1978.

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