Debt for progress
Does it pay off for poor livestock keepers?

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Content

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- Support behind livestock intensification
- Pressures on farmers
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- Indebtedness and choices for farmers
- What can governments do to protect small-scale and poor livestock keepers?
Context

- Population ↑
- Economic growth => income ↑
  - => demand for livestock products ↑
  - => farmers can sell more
  - => many opt to invest to raise production
  - => investments often financed through making debts

=> Indebtedness: until now little studied
Method and focus

- Draws on *Livestock out of balance* paper
- Literature review covering:
  - Contract farming
  - Livestock revolution
  - Livestock value chains
- Focus on livestock keepers
  - “Farmers” who have linkages with buyers or other players in the value chain
- Investigates principles and trends over time and across continents
Why do farmers invest?

- Because they want to
  - E.g. attracted by new technologies

- Because they can do so
  - Availability of new technologies, high-yielding animals and credit

- Because they are advised to do so
  - By (livestock) professionals and governments
Government support to intensification (1)

- Started in the **North** in 1930s (earlier?)
- Support through e.g.,
  - research
  - advisory services
  - credit
  - subsidies
  - legislation
- Goal: raise production to enhance food security
Government support to intensification (2)

- In the **South** since early 1950s
- Brazil and Thailand pioneers
- Support to companies through e.g.,
  - Tax breaks
  - Public credits
- More governments now promote intensification
Development support to intensification

Recent development approaches enable poor farmers to invest and intensify:
- Foster linkages between producers and buyer
- Provide access to training, credit and improved inputs

=> Poor farmers can benefit from livestock boom
Example: Smallholder dairy project
Reliance company, India

- Franchise milk collection system in villages
- Pricing transparent for producer
- Access to improved livestock, inputs, training, credit and livestock insurance
- Pays more than local vendor
- Collects small amounts of milk
- Collects from farmers without new animals
Pitfalls of Reliance project

zyst Calves do not get enough milk
zyst Producers may sell milk rather than feed it to their children
zyst Local milk traders pushed out of market
  => danger of monopolization and ability to control of milk price
zyst Local breeds replaced by exotics
  Local breed not even recognized
Bigger farms = fewer farms

- The advice “you need to grow to survive” has proven detrimental for many livestock keepers
- Number of farmers in North has dropped
- Some countries now <2%
- Exodus continues in North and now also in South
Pressures on farmers (1)

**Economies of scale**
- Large producers produce more and can reduce their unit costs

**Consolidation** of the livestock sector
- As production and intensification ↑, actors drop out => monopolization

**Treadmill** (see next slide)
Treadmill

When production ↑ and product prices ↓

- Early adopters of new technologies can capture windfall profits
- But: their profits ↓ as more adopters enter because
  - => production ↑
  - => product prices and margins ↓
- => Farmers need to adopt new technologies to stay in the game
Pressures on farmers (2)

- Dependency on outside inputs
  - Makes farmers vulnerable to input price rises
- Changing laws and regulations
  - Compliance may require investments
Pressures on farmers (3)

- Unfavourable contracts
  - Require large investments
  - Short duration
  - Tie payments to unrealistic mortality rates, fattening periods and feed conversion rates
  - Make the producer to carry the whole production risk
Outcomes of pressures on farmers

- Small margins
- Financial squeeze on farmers
- Incentives for unethical behaviour:
  - Overuse of antibiotics and other growth stimulants
  - Improper waste and carcass disposal
- Debts
- Reduced flexibility to react to unforeseen changes
Indebtedness of farmers (1)

Trends from literature (based on scarce data!):

- Farmers are more likely to have debts if:
  - They live in industrialised country
- Farmers tend to have more debts if:
  - They produce mostly for the market
  - Are a contract farmer or coop member
Indebtedness of farmers (2)

- Indebtedness in North and South on the rise
- The advice “you have to grow in order to survive” now propelled around the globe.
When do debts become a problem? (1)

- If liabilities are too big a share of a farm’s total assets
- If conditions change and assumptions behind calculations no longer hold
  - E.g., rising input prices
- If contracts are too short to allow repayment
When do debts become a problem?(2)

- If a farm becomes **too specialised**
  - Buildings cannot be used for other things
- If many producers go **bankrupt** at the same time
  - Farms and equipment difficult to sell
Choices for farmers with debts

- Get outside work
- Optimise labour and resources rather than maximise production
- Diversify
- Target alternative markets
- Protest
- Drop out
What can governments do to help farmers? (1)

- Prevent consolidation of market
- Ensure free access to price and market information
- Give impartial rather than production-oriented advice to farmers
- Provide legal advice to farmers on fair contracts, develop model contracts
What can governments do to help farmers? (2)

- Support small-scale farming through favourable legislation
- Facilitate the participation of small-scale producers in decision-making
- Cut bureaucracy!
Thanks for listening 😊

“Livestock out of Balance”:  
www.pastoralpeoples.org/publications/booksbrochures/

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